Manitoba

REPORT OF THE PROVINCIAL AUDITOR to the Legislative Assembly for the fiscal year ended March 31, 1987

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TABLE OF CONTENTS

	Page
LEGAL PROVISIONS	1
INTRODUCTORY COMMENTS	3
SUMMARY OF MATTERS OF CONCERN AND RECOMMENDATIONS	6
ASSETS AND LIABILITIES - OVERVIEW COMMENTS	
Accounting Policies	11
OPERATING FUND FINANCIAL ASSETS AND LIABILITIES	
Overview Comments	12
Working Capital	13
Loans and Advances	14
Valuation Allowance	16
Manitoba Properties Inc.	17
Excess of Liabilities over Financial Assets	19
Direct Public Borrowings	21
Guaranteed Public Borrowings	23
Combined Direct and Guaranteed Public Borrowings	25
Borrowing Authority	27
Sinking Funds	28
Commitments and Contingent Liabilities	29
TRUST FUND ASSETS AND LIABILITIES	
Administered Trust Funds	32
REVENUE AND EXPENDITURE	
Accounting Policies	33
Operating Results	34
SPECIAL WARRANTS	41
GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM	
General Comments	42
Department of Finance	42
Planning and Priorities Committee of Cabinet	44
Civil Service Commission	44
Public Accounts Committee	46
GOVERNMENT CONTROL OVER CROWN AGENCIES	48
GOVERNMENT-WIDE REVIEWS	
General Comments	49
Planning	49
Management Reporting	49
Departmental Expenditure Estimates	50
Departmental Annual Reports	50
Program Expenditures	51
Personal Use - Assigned Government Vehicles	52

TABLE OF CONTENTS

	Page
DEPARTMENTAL OPERATIONS	
Department of Agriculture	53
Department of Business Development and Tourism and Department of Industry, Trade, and Technology	54
Department of Community Services	54
Department of Crown Investments	55
Department of Culture, Heritage and Recreation	55
Department of Education	56
Department of Finance	57
Department of Northern Affairs	57
Various Departments - Overexpenditure	58
AGENCY OPERATIONS	
Brandon University	60
Channel Area Loggers Ltd.	60
Communities Economic Development Fund	60
Legal Aid Services Society of Manitoba	62
Manfor Ltd.	62
Manitoba Beef Commission	63
Manitoba Development Corporation	64
Manitoba Health Services Commission	67
Manitoba Lotteries Foundation	67
Manitoba Public Insurance Corporation	67
MTX Telecom Services Inc.	69
Universities Grants Commission	71
University of Winnipeg	71
Workers Compensation Board	71
ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE	74
ACKNOWLEDGEMENTS	79

TABLE OF CONTENTS

Page

EXHIBITS

1. Scope of audit and reporting procedures..... 80
2. Schedule of Crown agencies whose financial statements were audited and reported on by the Provincial Auditor's Office..... 85
3. Schedule of Crown agencies whose financial statements were audited and reported on by private-sector audit firms with an overview audit by the Provincial Auditor's Office..... 87
4. The Provincial Auditor's Office organization chart..... 88
5. Report on the audit of the Provincial Auditor's Office..... 89
6. Report of the Provincial Auditor on the Consolidated Fund financial statements..... 90
7. Government of the Province of Manitoba statement of responsibility for the preparation of the financial statements..... 91
8. Statement of financial position - Operating Fund..... 92
9. Statement of revenue and expenditure..... 93
10. Statement of changes in financial position - Operating Fund..... 94
11. Schedules and notes to the financial statements..... 95
12. Accounting policies - statement and application..... 106
13. Trust Fund assets and liabilities..... 112
14. Trust Fund accounting policies..... 113

LEGAL PROVISIONS

This report is made to the Legislative Assembly of Manitoba for the fiscal year ended March 31, 1987 in compliance with subsections (1), (1.1), and (2) of section 13 of The Provincial Auditor's Act. These subsections of section 13 of the Act are as follows:

Report to assembly.

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of the report.

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient
(i) to safeguard and control public property, or
(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or
(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for the purposes for which it was appropriated by the Legislature.

Submission of report.

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in session, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

In accordance with these requirements, I report significant matters and other matters which I consider should be brought to the attention of the Legislative Assembly. This is being done in the manner outlined under reporting procedures in Exhibit 1 of this report. The report provides continuity with the prior report in that matters reported in our previous report which required further action are updated in this report.

Upon receiving the Provincial Auditor's Report, the Lieutenant Governor in Council is to direct that copies of the report be sent to the members of the Assembly.

LEGAL PROVISIONS

Section 14 of the Act states:

Report on Government statements

14 The Provincial Auditor shall examine the several financial statements required to be included in the Public Accounts under The Financial Administration Act, and any other statements which the member of the Executive Council charged with the administration of The Financial Administration Act may present for audit, and shall express his opinion as to whether they fairly present information in accordance with accounting policies of the Government stated in the Public Accounts and on a basis consistent with that of the preceding year together with any reservations he may have with respect thereto.

In accordance with these requirements, my opinion is included in Exhibit 6 of this report. Further information regarding my audit opinion is included in the Introductory Comments section and the Revenue and Expenditure section of this report.

In accordance with section 13(1)(b), I report that, in carrying on the work of my office, I received all the information and explanations I required.

INTRODUCTORY COMMENTS

As outlined in the Legal Provisions section of this report, section 13 of The Provincial Auditor's Act requires that the Provincial Auditor report annually to the Legislative Assembly on the work of his Office. The Act requires that he report anything that he considers to be of significance and of a nature that should be brought to the attention of the Legislative Assembly. Accordingly, in reading this report it must be remembered that the matters reportable under section 13 reflect, or arise mainly from, administrative problems. This report, therefore, is a report by exception and as such cannot be a balanced report. As a consequence, the report emphasizes concerns, without recognizing situations where no serious concerns were observed. It is important to acknowledge, and for a reader to appreciate, that the majority of audits for the fiscal year ended March 31, 1987 did not identify matters which required reporting to the Legislative Assembly.

The Government has implemented a number of significant improvements which we wanted to acknowledge. Details of these are provided throughout this report, but we believe it is appropriate to summarize them here to add balance to our report.

The accounting policies of Government have been, and are in the process of being, significantly improved. The basis of disclosing capital expenditure has been revised so that they are not reflected in a special manner in the statement of revenue and expenditure. We are no longer qualifying our opinion on the Public Accounts in this respect. In addition, the Government has revised its basis of accounting for non-recoverable losses of Crown agencies so that, in future, these losses will be reflected in an appropriation. Another significant improvement is the movement toward an accrual basis of accounting for education expenditures.

The Government implemented our recommendation to provide a formal response to the Public Accounts Committee with respect to our more significant concerns. In addition, the issuance of the Management Practices Guide has resolved our concern with communication of the Government's management philosophy.

With respect to Crown agencies, this report indicates the actions taken to resolve our concerns regarding Channel Area Loggers Ltd., the Legal Aid Services Society of Manitoba, the Manitoba Health Services Commission and the Manitoba Lotteries Foundation. Other matters are in the process of being resolved.

Based on the work of my Office, I consider that public service managers administered the financial affairs of the Province in a satisfactory manner during the fiscal year. Overall, there is a much greater awareness of the need to get more out of the funds appropriated by the Legislature. The financial controls and records maintained by the Province have generally continued to improve. This is mainly due to the continued efforts of Government and its managers to improve management processes and practices. The positive response that our audit recommendations receive from all levels of management also contributes to this ongoing improvement. This situation should not detract from the importance of our observations and recommendations for improvement. Our more significant observations are summarized under the "Summary of Matters of Concern and Recommendations" heading. These observations and recommendations are dealt with in greater detail in later sections of this report.

This report includes 14 exhibits which provide additional information. A number of these exhibits are reproductions of the summary financial statements from the Public Accounts, including our opinion thereon.

INTRODUCTORY COMMENTS

Exhibit 7 of this report states that the financial statements of the Government of the Province of Manitoba for the fiscal year ended March 31, 1987 have been prepared under the direction of the Minister of Finance. This work was performed in accordance with the provisions of The Financial Administration Act. The summary financial statements appear in Section 1 of Volume 1 of the Public Accounts. Supplementary information developed by the Department of Finance regarding the 1986-1987 fiscal year is provided in other sections of Volume 1 and in Volume 2 of the Public Accounts.

Information about our mandate and the approach we use to fulfill our mandate is provided in the following paragraphs to provide a reader with a more complete understanding of the work of our office.

The issuance of our opinion report (Exhibit 6) on our examination of the Consolidated Fund financial statements is one of our main responsibilities. This responsibility is set out in section 14 of The Provincial Auditor's Act which requires the Provincial Auditor to express an opinion as to whether the statements "fairly present information in accordance with accounting policies of the Government stated in the Public Accounts and on a basis consistent with that of the preceding year together with any reservations he may have with respect thereto".

The opinion report includes two standard paragraphs. The first is a paragraph which refers to the scope of our audit. The last paragraph expresses an opinion on the financial statements. Further details concerning these two paragraphs are provided below.

The first paragraph of the report indicates that the audit report is developed by this Office. It also indicates which statements are covered by our opinion and it contains a reference to the nature of the audit work performed. The phrase, "generally accepted auditing standards" relates to three broad standards.

The first is a general standard dealing with the persons performing the work. The work is to be performed by persons having appropriate technical training and proficiency in auditing. It also relates to the expectation that the audit is to be performed with due care and with an objective state of mind.

The second standard relates to the audit work performed. The audit work is to be adequately planned, properly executed and supervised. In addition, there is to be an appropriately organized study, testing and evaluation of those controls on which the auditor will be relying upon in determining the nature, extent and timing of audit procedures to be performed. The examination standard also requires that sufficient and appropriate audit evidence be obtained to provide a reasonable basis to support the content of the audit report.

We seek reasonable assurance that the financial statements, taken as a whole, are fairly presented. Audit procedures are undertaken which are designed to assess the fairness of the financial statement representations. Absolute audit assurance regarding the fairness in presentation is not possible. Accordingly, the evidence accumulated during an audit does not guarantee absolute precision.

The third standard relates to audit reporting. Reference to the scope of the audit examination in the audit report is required. This standard also provides direction regarding the contents in the audit report. Reference is also made to "such tests and

other procedures as were considered necessary". It is impractical to examine all transactions; accordingly, many procedures are performed on a test basis. Professional judgement is exercised in determining the procedures to be undertaken and their extent. The report is also to indicate whether limitations or restrictions were placed upon the audit process.

The last paragraph of the report expresses the opinion that we have reached on the basis of the evidence obtained on the representations included in the financial statements. Judgement is exercised in forming an opinion as to whether the financial statements "present fairly" the financial position of the Government and the results of its operations and changes that have occurred during the fiscal year. We exercise professional judgement regarding the appropriateness of the accounting principles adopted during the development of the financial statements and the adequacy of the presentation adopted within the financial statements. Consistency with the Government's disclosed basis of accounting is the first standard for comparison in determining our opinion for reporting on Public Accounts. In addition, we evaluate the Government's accounting policies to determine whether they are appropriate under the circumstances. If we concluded that the Government's accounting policies were not appropriate, our report would indicate our reservation. Changes in accounting principles between fiscal years could have a significant impact upon the comparability of reported amounts. Therefore, our audit report also provides an indication as to whether the comparability of financial statements between fiscal years has been affected. This reporting aspect is embodied in the phrase "basis consistent with that of the preceding year".

Another important product of our work is providing recommendations to management for improving operations. This is done through the development and issuance of written reports. This reporting arises from section 13(1.1) of our Act. As indicated in the Legal Provisions section of this report, we are required to report to the Assembly any matters that we consider to be of significance. This includes observed instances where the financial accounts have not been properly maintained; where appropriate financial and management systems have not been developed or maintained to safeguard and control public property; where authority limits established by the Legislature have been exceeded and observed instances of non-compliance with legislative authorities. The recommendations for improvement noted in other sections of this report result from this work.

Control of the authority limits established by the Legislature is a basic and important management function. Legislative bodies control the administration of their operations by providing enabling authority and requiring compliance with it. Legislation delegates broad powers to government, ministers, agencies and other entities. If the enabling legislation provides for it, they in turn may establish subordinate authorities. Such subordinate authorities must comply with the limitations set out in the enabling authority. We report significant instances of non-compliance with authority to the Assembly.

SUMMARY OF MATTERS OF CONCERN AND RECOMMENDATIONS

A number of improvements have been implemented. These improvements are reflected in our Introductory Comments and accordingly do not appear in this section of our report.

The more significant concerns and recommendations in this report are summarized below:

Revenue and Expenditure

Financial Statement Presentation

- Certain of the Government's accounting policies and reporting practices fragment operating results. This reduces the level of accountability the Government demonstrates for resources obtained from the taxpayer. There are a number of matters which result in the fragmentation of operating results.

  Two particular accounting policies and their related reporting practices which result in a fragmentation of operating results are reflected as qualifications of my report on the Consolidated Fund financial statements. Further clarification of these issues is provided in the following four paragraphs.

  The net budgetary requirement currently does not include the increase in the valuation allowance for losses incurred by Crown entities and on other loans and advances. It also does not include the accrued liability to the Manitoba Development Corporation. As a result, the net budgetary requirement is understated by approximately $57.4 million (1986 - $69.9 million). In our opinion, the change in the valuation allowance and accrual applicable to the 1987 fiscal year should form part of the net budgetary requirement. This has resulted in a qualification of my report on the Consolidated Fund financial statements. There has been a significant improvement in the Government's accounting policy for recognizing increases in the valuation allowance for losses of Crown entities and other loans and advances. When the new policy is implemented in the 1988 fiscal year, losses incurred which are not considered recoverable from operations will be incorporated into the Government's expenditures in the 1989 fiscal year.

  Loans and advances to Crown Corporations, Agencies, Boards and Commissions includes a loan of $11 million to Manitoba Properties Inc. (MPI). Inclusion of this amount as a loan is inappropriate because this amount does not represent a claim against other parties. Servicing of this amount will be through future charges to a Government appropriation. In that the Corporation provides services solely to the Government and receives operational direction from the Government, treating this Corporation as other than part of the Government is unrealistic. The loan was made to enable MPI to fund certain renovation and construction projects, managed by the Department of Government Services, in buildings owned by MPI. Other renovation and construction projects managed by the Department, in buildings owned by MPI, are funded through an appropriation. The distinction between which projects are to be financed as loans to be repaid through future appropriations and which projects are to be funded through current appropriations is based on the criteria of whether the expenditure adds to the building or is expected to increase its remaining usefulness. The special treatment given to these expenditures results in a

fragmentation of operating results. The Government's accounting policy indicates that renovation and construction expenditures are charged to an appropriation in the year of the expenditure. The effect of the presentation adopted by the Government in preparing its financial statements for the fiscal year ended March 31, 1987 is an overstatement of financial assets, and an understatement of the excess of liabilities over financial assets and the net budgetary requirement by $11 million.

The method of accounting for physical assets and their impact on operating results needs to be significantly revised. Current government accounting practices at the provincial level across Canada require that capital related expenditures be fully reflected in the net budgetary requirement in the year the expenditure is made. This is useful from a net debt determination perspective and provides consistency in this respect between governments. However, this method causes a fragmentation of operating results, because it fails to recognize that many of the capital related expenditures made by the Government of the Province of Manitoba benefit more than one fiscal period. We are forced to qualify our opinion on the Public Accounts because the Government's partial move toward recognizing that capital related expenditures benefit future fiscal periods has taken place without a full re-evaluation and revision of the accounting policy for physical assets. The Canadian Institute of Chartered Accountants' Public Sector Accounting and Auditing Committee has undertaken a project to develop accounting recommendations for the Federal and provincial governments in Canada. In order to respond effectively to the forthcoming recommendations, considerable information will have to be gathered regarding the Government's existing fixed assets. We recommend that the Government initiate a project to develop sufficient information relative to its fixed assets to be able to implement practical improvements in the method of accounting for physical assets and of amortizing their cost over time.

Accountability is the cornerstone of all financial reporting in government. Financial reporting plays an important role in fulfilling a government's duty to be publicly accountable in a democratic society. It is for this reason that we are concerned about any accounting policies or reporting practices that fragment operating results. We recommend that the Government take action to reduce the extent of the fragmentation of its operating results and thereby improve its public accountability.

- The Government's unrecorded liability for pension costs of employees, teachers and members of the Legislative Assembly has grown dramatically since the current accounting policies were adopted on April 1, 1961. We estimate that the unrecorded liability now exceeds $815 million. When combined with the unrecorded pension liability of the Manitoba Hydro-Electric Board and the Manitoba Telephone System, the total unrecorded liability for pensions in the Manitoba public sector exceeds $1.1 billion (1986 - $1.0 billion). This is a very significant amount for a province with Manitoba's population. We also estimate that $92 million (1986 - $92 million) of pension costs were not recorded as expenditure in the Public Accounts for the year ended March 31, 1987. We believe that the continued exclusion of these liabilities and costs from the Government's summary financial statements is inappropriate.

SUMMARY OF MATTERS OF CONCERN AND RECOMMENDATIONS

Governments in Canada have adopted a practice of interperiod inequity by burdening future generations with the costs of services already provided. Governments are significantly understating the burden being placed on future generations by not including pension costs in operating results. In our view, there is no sound basis for such a fragmentation of the costs being passed on to future generations. The method of accounting for physical assets discussed above has an opposite effect in that expenditures which benefit future periods are recorded fully as costs in the year of expenditure. The Canadian Institute of Chartered Accountants' Public Sector Accounting and Auditing Committee (PSAAC) is nearing completion of a study which will result in recommendations to improve public sector accounting for pension costs and the related unrecorded liabilities. We recommend that the Government direct its officials to develop an appropriate basis for recording pension costs for the next Estimates process, having regard for the intent of the proposed PSAAC recommendations.

Government's Central Management System

- A multi-year financial plan is essential to legislators when they attempt to understand the implications of current fiscal plans for the net budgetary requirement in relation to future years. This multi-year plan would also be of considerable benefit to managers in individual departments in setting their own priorities and objectives. We recommend that multi-year financial information be made available to the Legislative Assembly and departmental managers. The Government has continued to review the implications of making multi-year financial information available.

Government Control over Crown Agencies

- The system in place has not provided an appropriate rationale for the significant variations in the compensation levels of senior executives and managers among Crown agencies and between those agencies and the Civil Service. We believe the absence of a rationale for the variances can lead to inequities, recruitment difficulties, and morale problems among persons employed in the Manitoba public sector. We recommend that Cabinet implement an appropriate action plan as soon as practicable. This recommendation is in the process of being implemented by the Government.

Departmental Operations

Department of Education

- Schools divisions and the Public Schools Finance Board are subsidizing the operations of municipal governments. Regulation 12/81 needs to be changed to eliminate this subsidization. The extent of this subsidization was estimated to be approximately $6.6 million for 1986. The estimate was not updated for 1987. The subsidization results from inconsistencies in the dates school tax levies are collected by municipalities and the dates these funds are due for remittance to the Public Schools Finance Board and school divisions. Although the Department has developed a recommendation to resolve this matter, the Government has not yet taken action. We again recommend that the necessary

changes be made on a priority basis to eliminate this inappropriate drain on education financing.

Department of Culture, Heritage and Recreation

- Operating expenditures have been paid from a trust account administered by the Department of Culture, Heritage and Recreation in a manner which does not comply with the legislation establishing the trust accounts under The Manitoba Lotteries Foundation Act. Our concern is with the fragmentation of operating results of departmental expenditures reported in the Public Accounts and with non-compliance with the Act. The amount of the operating expenditures not reflected in the Public Accounts as a departmental expenditure during 1987 was approximately the same as the $1.2 million set out in our report last year. Department program expenditure flowing through trust accounts appears to be a problem in other jurisdictions as well. We understand this is a matter being addressed by PSAAC. The Government amended the Act effective July 17, 1987 to enable the Department to make the type of payments it had been making without the required transfer to the Operating Fund. This amendment to the Act only resolves our concern regarding non-compliance with legislation, but not the issue of fragmentation of reported financial operating results in Public Accounts.

Various Departments - Overexpenditure

- Legislative control over the level of government expenditures is one of the important fiscal controls of the Legislative Assembly. When this control is weakened, our legislative approach to government is less effective. Management controls are expected to operate effectively to support legislative control. For the second year in a row, a significant number of departments incurred expenditures in excess of their spending authority. Twelve departments exceeded their spending authority by approximately $4.0 million in 1987 (1986 - eleven departments, $3.9 million). While the dollars are not large in relation to the Government's overall operating budget, we are concerned with any weakening of legislative control. Appropriate management controls need to be developed and put in place to alert appropriate authorities in sufficient time to prevent overexpenditures. We recommend that such controls be put in place forthwith in the departments incurring these overexpenditures.

Agency Operations

Communities Economic Development Fund

- The Communities Economic Development Fund lends public funds. The need to demonstrate a high level of public accountability for these funds is greater than for private sector lending institutions. Investors and depositors provide resources voluntarily to lending institutions in the private sector. However, the same is not true for taxpayers. For this reason, high standards of accountability are expected from an organization which lends taxpayer money.

  While some improvements have recently been made, further improvements are necessary to bring the Fund's management functions and internal controls to an

appropriate level. Improvements are required in the loan evaluating, monitoring and documenting procedures and in the planning, organizing, reporting and evaluating aspects of the Fund's management. We recommended that a special project be initiated to address these issues. Management of the Fund has recently implemented a special project and will seek expertise as required to ensure the project is successful.

Workers Compensation Board

- Section 66(1) of The Workers Compensation Board Act requires the Board to assess and collect sufficient funds from employers to meet all amounts payable from the accident fund during the year and to provide capitalized reserves for payments of compensation required in future years. Failure to comply with this section of the Act has resulted in the Board incurring very substantial deficits in the Class G Fund. The accumulated deficit as at December 31, 1986 was $84.3 million. The Legislative Review Committee studying workers compensation in Manitoba issued its report in June, 1987. We recommend that action be taken as soon as practicable to bring the Board's activities into compliance with legislation and to adopt a sound fiscal policy for funding the Board's operations.

ASSETS AND LIABILITIES - OVERVIEW COMMENTS

Accounting Policies

The Government of the Province of Manitoba operates using the Consolidated Fund concept. This Fund is comprised of two sections: the Operating Fund section, which reflects the operational activities and financial position of the Government, and the Trust Fund section, which reflects the trust administrative function that the Government provides. The accounting policies adopted for the Operating Fund and Trust Fund for the fiscal year ended March 31, 1987 are reproduced in Exhibits 12 and 14, respectively, of this report.

Over the past several years, the Government of the Province of Manitoba made significant improvements in its financial reporting in Public Accounts. In prior fiscal years, these changes resulted in the implementation of important aspects of accrual accounting and the development of summary financial statements. The Government has made significant efforts to adopt the recommendations by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants. Certain of the changes outlined above were made in advance of PSAAC's recommendations being formalized. A great deal of effort and consideration is currently being given to the development of general standards of financial statement disclosure for governments. The Government has already done much to improve the financial statement presentation in Public Accounts. A number of other significant changes are currently in process and a number of issues which may require change are still being considered.

During the year ended March 31, 1987, the Government revised its accounting policy regarding valuation of loans, advances and investments held by the Government. Details concerning this change are provided in note 9 to Public Accounts. As part of this change in accounting policy, an adjustment of $185 million was made to the Government's financial statements.

The adjustment to write down accounts was made as part of the introduction of a more realistic ongoing basis for valuing Government loans, advances and investments in this and future years, and reflecting the costs through an appropriation in future years.

An accounting policy change was made during the fiscal year in order that the Government's share of public schools support costs would be recorded on an accrual basis in future years. The purpose of the change is to reflect these costs in the fiscal year in which educational services are provided. An adjustment of $50 million has been recorded as a prior period adjustment. Of this amount, $35 million represents the accrued liability at March 31, 1987 for services provided by school divisions in prior periods which have not yet been funded. The balance of $15 million represents services provided by school divisions in prior periods funded during 1987.

The significant accounting policies of the Government are set out in sections I, II and III of Exhibit 12 of this report. Changes in the Government's accounting policy are set out in section IV of Exhibit 12. A summary of the liabilities and financial assets of the Operating Fund, together with the supporting schedules and notes, is reproduced in Exhibits 8 and 11 of this report. A summary of the Trust Fund Assets and Liabilities, together with the supporting notes, is reproduced in Exhibits 13 and 14 of this report.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Overview Comments

Total Government liabilities increased during the fiscal year ended March 31, 1987 to $7,745 million. This represents an increase of $1,190 million, from $6,555 million at March 31, 1986. The increase mainly resulted from net increases in borrowings of $965 million. Other factors were an increase in accounts payable and other liabilities of $74 million, an increase in the amount owing to the Trust Fund of $82 million and an increase in the provision for unrealized foreign currency losses of $69 million.

The increase in total liabilities of $1,190 million resulted from changes to assets and other accounts as follows (*in millions of dollars*):

Increases:	
Net budgetary requirement for the year ended March 31, 1987	$ 559
Cash and equivalents	73
Advances to and investments in Crown agencies	334
Adjustments arising from accounting policy changes during the year:	
Write-down of loans, advances and long-term investments	185
Prior period adjustments related to Public Schools Support	50
Unfunded liability for Manitoba Development Corporation losses	7
	1,208
Decreases:	
Loans and advances to others	3
Revenue receivable	1
Principal repayments on Serial Debentures transferred from The Manitoba School Capital Financing Authority	14
	18
	$ 1,190

Further particulars are included in the following subsections.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Working Capital

The particulars of the working capital are as follows (*in millions of dollars*):

	March 31 1987	1986	Increase (Decrease)
Assets			
Cash and equivalents	$ 625.4	$ 552.0	$ 73.4
Current amounts due from Canada and other external sources	136.5	138.0	(1.5)
	761.9	690.0	71.9
Liabilities			
Amount owing to the Trust Fund	569.5	487.9	81.6
Accounts payable, accrued charges and funds subject to call	368.7	294.2	74.5
	938.2	782.1	156.1
Working capital deficiency	$ 176.3	$ 92.1	$ 84.2

The cash flow, except for short-term bank borrowing and use of trust funds, is generally consistent from year to year. The increasing excess of liabilities over financial assets has a significant impact on cash flow requirements. The mix of liabilities is mainly dependent on the timing of long-term borrowing to refinance short-term bank borrowing. There can be fluctuations in the amount of trust funds used depending on their availability.

The revenue receivable from Canada and other external sources at March 31, 1987 is $136.5 million ($138.0 million at March 31, 1986). In addition, there are amounts receivable from other governments and other third parties as a result of programs carried out by the Government. These latter receivables total $94.3 million at March 31, 1987 ($97.3 million at March 31, 1986). These receivables are included in the Public Accounts in the loans and advances amount on the operating fund statement of financial position. As indicated in Schedule 3 of Public Accounts, the third party accounts are considered to be fully collectible, after taking into consideration the valuation allowance of $34 million as at March 31, 1987 ($35 million as at March 31, 1986).

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Loans and Advances

The total of the loans and advances to Crown Corporations, Agencies, Boards and Commissions, reflected in the Statement of Financial Position - Operating Fund and Schedule 3 of the Public Accounts, increased by $479.4 million at March 31, 1987 from $2,637.3 million at the preceding year-end, to $3,116.7 million.

An overview of the net changes in these loans and advances, net of sinking funds are as follows (*in millions of dollars*):

	March 31		
	1987	1986	Increase
Loans and advances	$ 3,116.7	$ 2,637.3	$ 479.4
Less:			
Sinking funds of Crown agencies on account of debt incurred by the Province	131.8	114.8	17.0
	$ 2,984.9	$ 2,522.5	
Net change			$ 462.4

An analysis of the net change of $462.4 million, by agency, is as follows (*in millions of dollars*):

Agency	Loans and Advances	Less: Sinking Funds	Net Change
Manitoba Agricultural Credit Corporation	$ 19.0	$ -	$ 19.0
Manitoba Crop Insurance Corporation	1.3	-	1.3
Manitoba Data Services	(3.4)	-	(3.4)
Manitoba Development Corporation	(4.9)	-	(4.9)
Manitoba Energy Authority	.1	-	.1
Manitoba Housing and Renewal Corporation	45.6	1.1	44.5
Manitoba Hydro-Electric Board	280.2	16.6	263.6
Manitoba Properties Inc.	12.4	-	12.4
Manitoba Telephone System	129.0	(.7)	129.7
Manitoba Water Services Board	.7	-	.7
Venture Manitoba Tours Ltd.	(2.0)	-	(2.0)
Other	1.4	-	1.4
Increase	$ 479.4	$ 17.0	$ 462.4

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

The principal repayments and/or interest charges for some of the advances are dependent on total or partial funding from future appropriations of the Consolidated Fund. The major agencies to which this applies are Manitoba Properties Inc. for total principal and interest funding, the Manitoba Housing and Renewal Corporation, for most of the principal and interest funding, and The Manitoba Agricultural Credit Corporation, for partial interest funding.

Through Loan Acts, the Government raises amounts to fund Crown agency operations. These funds may be declared as self-sustaining at the date of issue. With the passage of time and changing circumstances, however, it is clear that some Government debt previously declared self-sustaining is no longer self-sustaining. Accordingly, we previously recommended that there should be more of a challenge process at the time that the Government is considering funding these operations. This challenge process should result in a more realistic evaluation of whether the funds raised by the Government as borrowings are truly self-sustaining. We therefore recommended that business case documentation be developed to permit a more realistic assessment. The Government's new accounting policy regarding Crown agency losses includes a requirement for a challenge process.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Valuation Allowance

A summary of the valuation allowance components as at March 31, 1987 and 1986 is as follows (*in millions of dollars*):

	March 31 1987	1986	Increase (Decrease)
Loans and Advances to Crown Corporations, Agencies, Boards and Commission:			
Manitoba Water Services Board	$ 1.3	$ 1.9	$ (.6)
Manitoba Agricultural Credit Corporation	10.9	4.7	6.2
Manitoba Development Corporation	.6	10.1	(9.5)
Manitoba Housing and Renewal Corporation	.2	1.4	(1.2)
Manitoba Energy Authority	1.7	1.8	(.1)
Manitoba Properties Inc.	6.3	4.9	1.4
Venture Manitoba Tours Inc.	-	1.8	(1.8)
	21.0	26.6	(5.6)
Other Loans and Advances:			
Manitoba Beef Stabilization Fund	28.0	27.3	.7
Manitoba Hog Producers' Marketing Board	-	5.5	(5.5)
Manitoba Potash Corporation	.5	-	.5
Insulation Loan Program	1.7	.5	1.2
Emergency Interest Rate Relief Program	1.8	.6	1.2
Employment Co-op Program	.1	-	.1
Venture Capital Program	1.5	.8	.7
Film Support Program	.7	.1	.6
	34.3	34.8	(.5)
Shares and Debentures of Crown Corporations:			
Manfor Ltd.	-	126.3	(126.3)
Manitoba Mineral Resources Ltd.	1.5	2.5	(1.0)
Manitoba Oil and Gas Corporation	1.0	.6	.4
A. E. McKenzie Co. Ltd.	-	.1	(.1)
Leaf Rapids Town Properties Ltd.	-	.6	(.6)
	2.5	130.1	(127.6)
Other Long-Term Investments:			
Tantalum Mining Corporation of Canada Limited	-	1.5	(1.5)
	$ 57.8	$ 193.0	$(135.2)

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

As indicated in the application of accounting policy note IV(a) to Public Accounts, the Government's accounting policy on write-down of loans, advances, and investments has been revised. Commencing with the year ending March 31, 1988, losses covered by the valuation allowance and considered to be non-recoverable will be provided for in the Estimates in the immediately following fiscal year. For example, non-recoverable losses relating to the year ending March 31, 1988 will have an appropriation established for the write-off in the year ending March 31, 1989.

This change in the timing of the recognition of losses and the disclosure in the financial statements, has caused the Government to write-down the value of loans, advances and share equity investments at March 31, 1987.

As stated in note 9 to the financial statements, the accumulated losses written down of $185 million have been charged to the Excess of Liabilities over Financial Assets account. As a result, the Government has recognized losses and written down the value of loans, advances and equity investments to their realizable value on a more timely basis than if the policy change had not been made. The carrying value of these assets in the future will be the original cost adjusted for amounts written down.

Manitoba Properties Inc.

During the year ended March 31, 1985 the Province passed legislation which enabled it to raise a portion of its financing requirements through an indirectly wholly-owned corporation, Manitoba Properties Inc. (MPI). Since that time, MPI raised $399.2 million in equity financing from the public. The Province also sold certain of its land and buildings to MPI and entered into a 99 year lease-back arrangement.

To provide a more complete overview of the financial position of the Province as a result of this financing and lease-back arrangement, we recommended that the Government reflect the effect of these actions in the Public Accounts. The Government acted on our recommendation during the year ended March 31, 1986. The effect of these actions is disclosed in note 3 to the summary financial statements of Public Accounts and is shown below (*in millions of dollars*):

	1987	1986
Decreases:		
Expenditure	$ 11.9	$ 2.8
Net budgetary requirement	11.9	2.8
Direct adjustment to excess of liabilities over financial assets (Sale of assets)	-	251.9
Balance forward	585.6	330.9
Excess of liabilities over financial assets	$ 597.5	$ 585.6

In addition, the financing arrangement decreased direct borrowings in Public Accounts by $399.2 million, with an equivalent increase in guaranteed and indirect borrowings.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

As indicated, there has been an $11.9 million expenditure decrease in the Public Accounts during the 1987 fiscal year. Additional information regarding this matter follows. The change in expenditure results from the Government broadening the operations of MPI to include renovation and construction of projects for rental back to the Government. Approximately $11 million was provided as a loan to MPI to finance the work performed to March 31, 1987. Because the loan does not represent claims against third parties and because the loan will have to be serviced from future appropriations, we have qualified our audit opinion in regard to the $11 million loan to MPI. Comments regarding the $11 million loan to MPI are made in other sections of this report. A further $42 million is expected to be incurred to complete the renovations and construction.

Previously, such expenditures were reflected in the Consolidated Fund. The funding for these expenditures is now being handled as a self-sustaining loan. We comment on this aspect of operations in the Loans and Advances subsection of this report. This expenditure being spread over different operating entities results in the fragmentation of governmental operating results. One currently has to analyze the operating results of several entities to determine the full impact of the Government's operating results. This is one of the matters being addressed by the Public Sector Accounting and Audit Committee (PSAAC) of the Canadian Institute of Chartered Accountants (CICA).

PSAAC has been established by the Canadian Institute of Chartered Accountants to develop accounting, auditing and reporting standards appropriate for governments. This is a major undertaking. As reported last year, the Committee has already issued a number of recommendations. Significant issues remain to be researched and recommendations finalized. One project currently being worked on by the Committee deals with defining the government entity for financial reporting. Current indications are that the operating results and other pertinent financial data re MPI and many of the other provincial Crown agencies will require aggregation with information in the Government's primary financial statements in order to provide a more complete overview of the financial position of the Government and its operating results.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Excess of Liabilities over Financial Assets

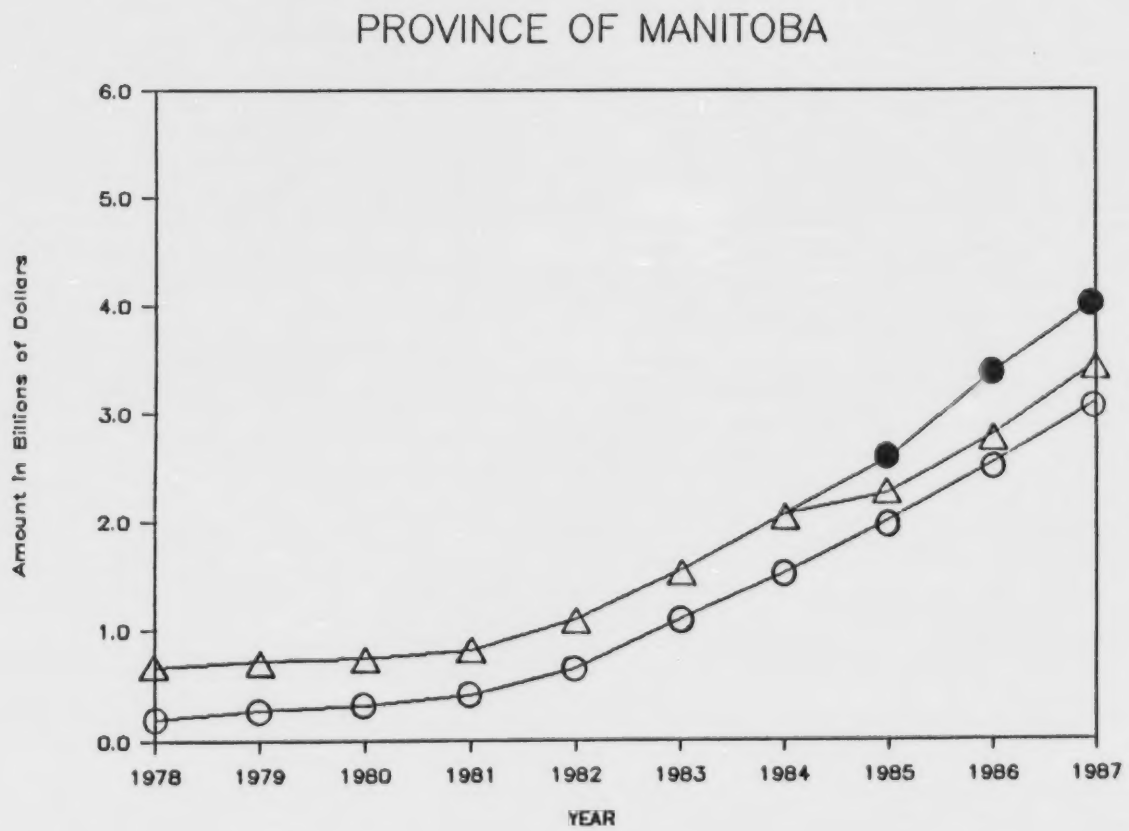
The excess of liabilities over financial assets is comprised of two components. These components include the accumulation of the net budgetary requirements and the valuation allowance required for the Government's loans and advances and investments. The changes in these two components are as follows (*in millions of dollars*):

	March 31 1987	March 31 1986	Increase (Decrease)
Accumulation of the net budgetary requirements:			
Balance at beginning of year	$ 2,601.3	$ 2,082.4	$ 518.9
Prior year's adjustments:			
Write-down (off) of loans and advances and long term investments	184.8	53.0	131.8
Public Schools Support	49.6	-	49.6
Unfunded liabilities for Manitoba Development Corporation losses	7.6	-	7.6
Unrealized foreign currency losses	-	256.4	(256.4)
Accrued interest payable - trust funds	-	4.5	(4.5)
Accrued interest receivable - advances and investments	-	(24.2)	24.2
Amortization of investment (discount)/premium on Province of Manitoba Sinking Fund	-	(19.5)	19.5
Amortization of debt issue costs on Province of Manitoba borrowings	-	(27.7)	27.7
Proceeds from the sale of land and buildings to Manitoba Properties Inc.	-	(251.9)	251.9
Adjusted balance beginning of year	2,843.3	2,073.0	770.3
Net budgetary requirement for the year	559.0	528.3	30.7
Balance at end of year	3,402.3	2,601.3	801.0
Valuation allowance:			
Balance at beginning of year	193.0	173.6	19.4
Changes for the year	(135.2)	19.4	(154.6)
Balance at end of year	57.8	193.0	(135.2)
Excess of liabilities over financial assets, balance at end of year	$ 3,460.1	$ 2,794.3	$ 665.8

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

The balance of the first component of the excess of liabilities over financial assets of $3,402.3 million as at March 31, 1987 ($2,601.3 million as at March 31, 1986) represents an accumulation of net expenditures for lasting tangible assets, lasting intangible benefits and the accumulated net budgetary requirements which were funded by public borrowing to be serviced from future revenues. This accumulation includes a reduction of $575.6 million from the sale of land and buildings to Manitoba Properties Inc. during 1985 and 1986 fiscal years.

A graphic presentation of the change in the excess of liabilities over financial assets related to the reported results of operations is set out below:



Legend:

- O = cumulative reported net budgetary requirement for the fiscal years ended March 31, 1978 to 1987 inclusive
- △ = reported excess of liabilities over financial assets
- ● = excess of liabilities over financial assets with consolidation of the effect of Manitoba Properties Inc. on the excess account

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

The increase in the accumulated annual operating results generally parallels the increase in the excess of liabilities over financial assets, with the exception of the adjustment arising from the sale of land and buildings to Manitoba Properties Inc. This adjustment had a significant effect in reducing the excess account. Other adjustments applied directly against the excess of liabilities over financial assets and not processed as revenue and expenditure have not been particularly significant.

Direct Public Borrowings

A summary of direct public borrowings and other related information is provided (*in millions of dollars*). Foreign borrowings are stated at exchange rates at the date the borrowings were incurred.

Direct public borrowings, net of sinking funds:

	March 31 1987	1986	Increase
Bonds, debentures and other debt instruments	$ 7,652.6	$ 6,493.2	$ 1,159.4
Less debentures issued under financial assistance agreements, see particulars below	29.5	29.5	-
	7,623.1	6,463.7	1,159.4
Less: Sinking funds	1,054.9	871.7	183.2
Unamortized debt issue costs	39.6	27.7	11.9
	1,094.5	899.4	195.1
	$ 6,528.6	$ 5,564.3	$ 964.3

In accordance with agreements, between the Province and the Credit Union Stabilization Fund for $25.0 million and between the Province and Les Fonds de Sécurité des Caisses Populaires for $4.5 million, debentures of $29.5 million were issued in 1982-83. These debentures are being held by the Province to be cancelled at maturity, July 7, 1987. The purpose of these debentures is to provide annual grants to the aforementioned entities equal to the annual interest of 14 7/8 percent stated for the debentures. The annual payments are charged as public borrowing costs in the Department of Finance and subsequently recovered by a charge to an appropriation voted for this purpose in the Department of Co-operative Development.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Direct public borrowings are repayable in the following currencies (*in millions of dollars*):

Type of Currency	March 31 1987	1986	Increase (Decrease)
Canadian Dollars	$ 3,751.8	$ 3,419.6	$ 332.2
Foreign borrowings stated in Canadian Dollars at exchange rates at the date the borrowings were incurred:			
United States Dollars	1,851.3	1,464.1	387.2
Swiss Francs	878.2	606.1	272.1
Japanese Yen	676.3	709.9	(33.6)
Deutsche Marks	491.8	289.2	202.6
European Units of Account	3.2	4.3	(1.1)
	3,900.8	3,073.6	827.2
	$ 7,652.6	$ 6,493.2	$ 1,159.4
Foreign borrowings calculated in Canadian Dollars at exchange rates at year-end	$ 4,900.0	$ 3,819.2	$ 1,080.8

Foreign borrowings due within the next three fiscal years, comparing book value with value in Canadian Dollars at exchange rates at March 31, 1987 (rated value), were as follows (*in millions of dollars*):

	March 31 1988		1989		1990	
Type of Currency	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
European Units of Account	$ 1.1	$ 3.5	$ 1.1	$ 3.5	$ 1.1	$ 3.5
Japanese Yen	6.9	8.6	23.7	38.2	72.8	110.9
Swiss Francs	6.3	13.9	116.7	173.4	-	-
United States Dollars	16.0	18.3	105.4	116.2	285.3	304.1
	$30.3	$44.3	$246.9	$331.3	$359.2	$418.5

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Guaranteed Public Borrowings

In addition to direct public borrowings, the Government has guaranteed public borrowings issued by other entities. Guaranteeing other entity borrowings is an alternative to direct Government borrowing and lending the funds to the entities. The summary of guaranteed public borrowings and other related information is as follows (*in millions of dollars*):

Guaranteed public borrowings, net of sinking funds:

	March 31 1987	1986	Increase (Decrease)
Securities guaranteed	$ 1,837.3	$ 1,943.4	$(106.1)
Less sinking funds and other related trust funds	272.6	262.3	10.3
	$ 1,564.7	$ 1,681.1	$(116.4)

The decrease in guaranteed public borrowings of $106.1 million is accounted for as follows (*in millions of dollars*):

Borrowing decreases:		
Refinanced by an increase in the direct debt of the Province:		
Manitoba-Hydro Electric Board		$ 104.2
Repaid from Sinking Funds and/or by cash:		
Manitoba Telephone System		4.8
Manitoba Hydro-Electric Board		12.5
Other		1.6
		18.9
		123.1
Less:		
Net increase in guaranteed debt:		
Manitoba Hydro-Electric Board		17.0
Net decrease		$ 106.1

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

The guaranteed borrowings are repayable in the following currencies (*in millions of dollars*):

Type of Currency	March 31 1987	1986	(Decrease)
Canadian Dollars	$ 1,005.9	$ 1,078.6	$ (72.7)
Foreign borrowings stated at exchange rates at the date the borrowings were incurred:			
United States Dollars	772.5	772.5	-
Swiss Francs	54.3	85.3	(31.0)
Deutsche Marks	4.6	7.0	(2.4)
	831.4	864.8	(33.4)
	$ 1,837.3	$ 1,943.4	$(106.1)
Foreign borrowings in Canadian Dollars calculated at exchange rates at year-end	$ 1,089.1	$ 1,208.1	$(119.0)

Guaranteed foreign borrowings due within the next three fiscal years, comparing book value with value in Canadian Dollars at exchange rates at March 31, 1987 (rated value), are as follows (*in millions of dollars*):

	March 31					
	1988		1989		1990	
Type of Currency	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
United States Dollars	$26.9	$32.6	$ -	$ -	$26.9	$32.6
Deutsche Marks	4.6	10.9	-	-	-	-
	$31.5	$43.5	$ -	$ -	$26.9	$32.6

Included in the guaranteed borrowings are amounts which are essentially the same as direct borrowings because they are serviced from the Consolidated Fund. These amounts consist of the following (*in millions of dollars*):

	March 31 1987	1986	(Decrease)
Manitoba Properties Inc.	$ 399.2	$ 399.2	$ -
University of Manitoba	13.0	13.2	(.2)
Various hospitals and other institutions	.1	.5	(.4)
	$ 412.3	$ 412.9	$ (.6)

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Combined Direct and Guaranteed Public Borrowings

Combined direct and guaranteed public borrowings, net of sinking funds, debentures issued under financial assistance agreements and unamortized debt issue costs, are as follows (*in millions of dollars*):

	March 31 1987	March 31 1986	Increase (Decrease)
Direct borrowings	$ 7,652.6	$ 6,493.2	$ 1,159.4
Guaranteed borrowings	1,837.3	1,943.4	(106.1)
	9,489.9	8,436.6	1,053.3
Less:			
Sinking funds re:			
Direct borrowings	1,054.9	871.7	183.2
Guaranteed borrowings	272.6	262.3	10.3
Unamortized debt issue costs	39.6	28.0	11.6
Debentures issued under financial assistance agreements (see particulars under Direct Public Borrowings)	29.5	29.5	-
	1,396.6	1,191.5	205.1
	$ 8,093.3	$ 7,245.1	$ 848.2

On the basis of Manitoba's population figures reported by Statistics Canada as at April 1, 1987, the net direct and guaranteed borrowings per capita were $6,093 and $1,445, respectively (1986 - $5,227 and $1,563, respectively).

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

The combined direct and guaranteed public borrowings, net of sinking funds, debentures issued under financial assistance agreements and unamortized debt issue costs are summarized below by sources of servicing *(in millions of dollars)*:

Serviced from:	March 31 1987	March 31 1986	Increase (Decrease)
Consolidated Fund:			
Fully re:			
General purposes	$ 3,505.3	$ 2,975.2	$ 530.1
Manitoba Properties Inc.	399.2	399.2	-
	3,904.5	3,374.4	530.1
Mainly re:			
Manfor Ltd.	115.1	81.9	33.2
Manitoba Beef Stabilization Fund	37.6	21.0	16.6
Manitoba Mineral Resources Ltd.	8.4	8.4	-
Manitoba Hog Income Stabilization Plan	2.4	7.6	(5.2)
Manitoba Oil and Gas Corporation	15.0	5.0	10.0
Venture Manitoba Tours Ltd.	2.6	-	2.6
Other	2.0	2.5	(.5)
	183.1	126.4	56.7
Partially re:			
Manitoba Agricultural Credit Corporation	209.6	188.9	20.7
Manitoba Housing and Renewal Corporation	106.2	107.8	(1.6)
Emergency Interest Rate Relief Program	9.0	9.0	-
University of Manitoba	4.8	6.3	(1.5)
Energy Conservation Loan Fund	2.8	-	2.8
Manitoba Data Services	1.6	5.1	(3.5)
Tourism Agreement	.5	-	.5
	334.5	317.1	17.4
	4,422.1	3,817.9	604.2
Other funds:			
Manitoba Hydro-Electric Board	2,866.9	2,673.2	193.7
Manitoba Telephone System	683.2	595.9	87.3
Manitoba Water Services Board	15.6	16.3	(.7)
Other	9.6	10.6	(1.0)
	3,575.3	3,296.0	279.3

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Manitoba Jobs Fund:			
Mainly	34.0	23.7	10.3
Partially	86.6	74.5	12.1
Other	7.7	10.1	(2.4)
Borrowing service costs	(.1)	.2	(.3)
Money raised but unexpended	7.3	50.7	(43.4)
	135.5	159.2	(23.7)
	8,132.9	7,273.1	859.8
Less: Unamortized debt issue costs	39.6	28.0	11.6
	$ 8,093.3	$ 7,245.1	$ 848.2

Borrowing Authority

The following is a summary of the outstanding borrowing authority (*in millions of dollars*):

	March 31 1987	1986	Increase (Decrease)
Appropriation Acts, to cover government operations and sinking fund provisions	$ 302.4	$ 303.8	$ (1.4)
Loan Acts, to cover self-sustaining and other Government programs	2,490.1	1,414.9	1,075.2
Total outstanding borrowing authority	2,792.5	1,718.7	1,073.8
Less: Loan Act encumbered authority, Manitoba Jobs Fund re:			
Gravure Graphics Ltd.	1.2	1.2	-
Producer Holding Co.	-	2.3	(2.3)
Simon Day Ltd.	1.2	-	1.2
	2.4	3.5	(1.1)
Manitoba Development Corporation	49.0	61.5	(12.5)
Communities Economic Development Fund	.1	.4	(.3)
The Co-operative Loans and Loans Guarantee Board	.1	.1	-
Manitoba Agricultural Credit Corporation	-	5.4	(5.4)
Manitoba Telephone System	23.0	-	23.0
	74.6	70.9	3.7
	$ 2,717.9	$ 1,647.8	$ 1,070.1

More details concerning the borrowing authority are included in the Public Accounts in section 3.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Sinking Funds

A summary of sinking funds is as follows (*in millions of dollars*):

	March 31 1987	March 31 1986	Increase (Decrease)
Direct public borrowings	$ 1,054.9	$ 871.7	$ 183.2
Guaranteed public borrowings	272.6	262.3	10.3
Agencies' non-guaranteed borrowings	7.2	5.8	1.4
	$ 1,334.7	$ 1,139.8	$ 194.9
Sinking funds were invested as follows:			
Internal securities:			
Province of Manitoba	$ 213.7	$ 217.8	$ (4.1)
Manitoba Hydro-Electric Board	248.6	245.8	2.8
Manitoba Telephone System	48.7	49.0	(.3)
University of Manitoba	4.9	4.9	-
	515.9	517.5	(1.6)
Other securities	554.4	364.0	190.4
Short-term investments	264.4	258.3	6.1
	$ 1,334.7	$ 1,139.8	$ 194.9

The sinking funds are maintained in accordance with legal requirements. They are basically being maintained by borrowing to provide funds for clearing the market of Manitoba securities. The clearing of Manitoba securities places the Government in a stronger marketing position. Province of Manitoba securities are being purchased before maturity by the Department of Finance at prices approved by the Deputy Minister of Finance. The short-term investments represent Government and Crown agency sinking funds being used as working capital by the Government. The Government's regular short-term investment rates of interest are applied as earnings to the various sinking funds.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

Commitments and Contingent Liabilities

The particulars of the more significant commitments and contingent liabilities are as follows:

Commitments

Housing

The Manitoba Housing and Renewal Corporation is indebted to the Canada Mortgage and Housing Corporation (C.M.H.C.) for $230.7 million as at March 31, 1987 ($231.7 million as at March 31, 1986).

This long-term financing relates to the 90% capital funding of public housing projects provided by C.M.H.C. The annual operating costs of these housing projects, including borrowing servicing costs, less rental recoveries, are shared equally between Canada and Manitoba. Manitoba's share of this public housing program subsidy amounted to $15.8 million for the year ended March 31, 1987 ($15.6 million for March 31, 1986).

Employee pension benefits

Employee pensions are a significant part of the costs of the operation of the Government and its agencies. The accounting method being followed by the Government and some of its Crown agencies for these costs significantly understates their effect. For example, we estimate that in excess of $92 million (1986 - $92 million) of pension costs were not recorded as expenditures of the Province as disclosed in the Public Accounts for the year ended March 31, 1987. These unrecorded costs have accumulated to an unrecorded liability of approximately $815 million as at March 31, 1987. When combined with the unrecorded pension liability of the Manitoba Hydro-Electric Board and the Manitoba Telephone System, the total liability for pensions in the Manitoba public sector exceeds $1.1 billion (1986 - $1.0 billion).

We recognize that the current method of accounting for pensions has been in place since April 1, 1961. However, as the significance of these matters continues to grow, we see an increasing need to have this information appropriately reflected in the operating results and financial position of the Province and its agencies. Consequently, we have an increasing concern about the need to change the method of accounting.

Pension costs are also being recorded inconsistently. For example, the cost of pension entitlements earned during a fiscal year is being recognized appropriately in the Public Accounts for such entities as hospitals, municipalities and universities. However, the same is not true for the pension entitlements earned by school teachers, the Government's own civil servants and the members of the Legislative Assembly. We are not aware of any sound basis for these inconsistencies. The Government already records some pension costs on an appropriate basis. We believe it is both practical and desirable for all pension costs to be recorded on an appropriate basis.

There has been some recent action to improve the situation. Several Crown agencies have moved toward a more complete accounting for pension costs in recent years, but others have not.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

We believe that the Public Accounts should reflect the economic reality of the cost of pensions. The Province and its agencies are facing a period of stringent fiscal requirements and the need for firm management of resources is clear. The Government needs appropriate cost information to effectively deal with this situation. For longer range planning to be effective, long-range plans must be based on realistic cost information. When significant costs such as pensions are excluded from the financial reporting process, there is increased risk that different decisions will be taken than if more complete information were available.

Governments in Canada have adopted a practice of interperiod inequity by burdening future generations with the costs of services already provided. By not including pension costs in operating results, most governments in Canada are significantly understating the burden being placed on future generations.

These costs have not been accounted for appropriately for such an extended period that, because of their present magnitude, they have become extremely difficult to deal with. We believe the time has arrived to develop an effective approach to this very difficult issue.

Because of general concern, a study by the Canadian Institute of Chartered Accountants' Public Sector Accounting and Auditing Committee is currently underway to determine standards for the recording of pension costs and liabilities of governments. We encourage the Department of Finance and the newly established Public Investment Corporation to monitor the progress of this Committee. In our view, however, there is no need to wait for formal recommendations to be made to start to work to improve present practices.

We strongly recommend that an action plan with specific targets be developed to address this issue. We consider that the objective of accounting for pension costs appropriately in the next Estimates process, in the Public Accounts and in the financial statements of all Crown agencies is a realistic goal for the Government to set for its officials.

Hospitals and personal care homes

Hospitals and personal care homes obtain financing for capital construction by issuing debentures, or arranging for mortgages or long-term bank loans. The Hospital Capital Financing Authority, which was established in 1972, approves the issue of all securities to finance these capital expenditures and assists in obtaining an orderly market for the sale of the securities. The Manitoba Health Services Commission has arranged with hospitals and personal care homes to fund the approved debt as long as the facilities are operated under The Health Services Insurance Act (Manitoba). Funds for servicing the approved debt are provided from an appropriation of the Consolidated Fund and included in the expenditures of the Manitoba Health Services Commission.

As at March 31, 1987, the approved outstanding net capital debt of hospitals and personal care homes was $362.1 million (1986 - $297.8 million), being $349.4 million in Canadian dollars and $9.7 million in United States dollars, converted to Canadian dollars at the March 31, 1987 exchange rate. This includes $23.2 million (1986 - $20.5 million) in National Housing Act mortgages which are subsidized by the Canada Mortgage and Housing Corporation.

OPERATING FUND FINANCIAL ASSETS AND LIABILITIES

In addition to the above net outstanding debt, lines of credit up to $100.0 million (1986 - $126.5 million) have been approved to finance projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

Future services

The Financial Administration Act permits commitments to be made only to the extent authorized by the Legislature. The Appropriation Act, 1986 granted authority to the Government to commit expenditures not to exceed $400 million. The commitments for significant contracts and lease rentals as at March 31, 1987 amounted to $333.4 million (1986 - $198.4 million).

Contingent Liabilities

Manitoba Development Corporation (MDC)

Flyer Industries Limited (Flyer) was sold on July 15, 1986. Details concerning this divestiture are provided in the Agency section of this report.

MDC has assumed all outstanding liabilities and obligations of Flyer as of the date of the divestiture. Flyer had been required to provide performance bonds to guarantee the completion of its contracts. MDC assumed responsibility for these performance bonds. The Government continues to indemnify the bonding companies to the extent of $53 million as at March 31, 1987.

New Flyer Industries Ltd.

The Manitoba Development Corporation (MDC) has guaranteed a bank line of credit to a maximum of $8 million for the operations of New Flyer Industries Ltd. This guarantee is to be reduced by $1 million on each July 15 commencing July 15, 1988 until July 15, 1991, at which time the guarantee shall be reduced to nil. The Government has guaranteed compliance by MDC with this obligation. MDC officials advised us that, as at September 30, 1987, none of the guarantee has been utilized.

The Government has also agreed to provide indemnities for bonding for new contracts obtained by New Flyer Industries to a maximum of $15 million per year for the years ended March 31, 1988 and 1989 to a cumulative maximum of $30 million. As at September 30, 1987, indemnities of $1.5 million U.S. have been provided for bonding purposes.

Manitoba Hydro-Electric Board

Subject to the approval of the Lieutenant Governor in Council, the Manitoba Hydro-Electric Board may borrow money for temporary purposes to the maximum of $150 million. There were $25 million of the Board's promissory notes outstanding and guaranteed by the Province of Manitoba as at March 31, 1987.

TRUST FUND ASSETS AND LIABILITIES

Administered Trust Funds

The Government provides administrative and investment functions to certain trust funds. These funds are designated as administered trust funds. The transactions for each of these trust funds are summarized in a statement in Public Accounts which shows: the balance as at March 31, 1986; the receipts/transfers and payments/transfers during the fiscal year; and the balance as at March 31, 1987. During the fiscal year ended March 31, 1987, the receipts and payments arising out of the administrative and investment functions concerning the administered trust fund approximated $2,302.8 million and $2,204.4 million, respectively (1986 - $2,279.1 million and $2,289.2 million, respectively).

The various administered trust funds may fluctuate from one fiscal year to the next. These fluctuations may result from changes in the cash requirements of Crown agencies, changes in the investment strategies of the Crown agencies, and the length of the interval between the issuance of Government borrowing instruments which raise the required funds for Crown agencies and the expenditure of the funds by the Crown agencies.

REVENUE AND EXPENDITURE

Accounting Policies

The accounting policies adopted by the Government for the year ended March 31, 1987 are reproduced in Exhibit 12 of this report.

Up to, and throughout most of the 1970's, the Government's accounting policies were based on the cash basis, modified to reflect year-end payables to suppliers. During the fiscal year ended March 31, 1979 significant changes were made to improve the Government's method of accounting. Significant changes have also been made in most of the subsequent fiscal years. The main changes in policies over these years have been the movement towards full accrual accounting. Under the accrual accounting basis, revenue is recognized when earned and expenditure when incurred. There has been the accrual of amounts recoverable under cost-shared agreements; the accrual of provincial tax revenues; the change in the basis of payments to reflect more accurately school division costs in the fiscal year in which they were incurred; the establishment and subsequent broadening of allowances for non-recovery of amounts due to the Government and the recognition of unrealized foreign currency losses.

An accounting policy change was made during the 1987 fiscal year in order that the Government's share of public schools support costs would be recorded on an accrual basis in future years. The purpose of the change is to reflect these costs in the fiscal year in which educational services are provided. An adjustment of $50 million has been recorded as a prior period adjustment. Of this amount, $35 million represents the accrued liability at March 31, 1987 for services provided by school divisions in prior periods which have not yet been funded. The balance of $15 million represents services provided by school divisions in prior periods funded during 1987.

In addition, the Government is significantly improving its accounting policy for recognition of crown entity losses. During the year ended March 31, 1987, the Government revised its accounting policy regarding valuation of loans, advances and investments held by the Government. Details concerning this change are provided in note 9 to Public Accounts. As part of this change in accounting policy, an adjustment of $185 million was made to the Government's financial statements. This adjustment is reflected as a prior year adjustment in Exhibit 9 of this report. We are supportive of the direction in which the policies are being revised.

As indicated previously in the Overview Comments section of this report, a great deal of consideration and effort is currently being given to the development of general standards for financial statement reporting for governments. Accordingly, one may expect the Government to continue to revise its accounting policies until such time as the general standards for financial statement presentation for governments are fully developed.

Future changes should include improvements in accounting policy to bring about a clearer definition of the Government entity for reporting purposes, increased recognition of staff benefit and payroll costs, improved accounting for physical assets and better recognition and reporting of tax expenditures. Reporting on the Government entity basis pertains to the combining of operating results and the assets and liabilities of the Government and its agencies in a meaningful way. This is necessary to provide a clearer perspective on the overall financial position and operating results of all the organizations over which the

Government exercises control and for which it is accountable.

Operating Results

Financial Statement Presentation - Capital Expenditure

In our previous report we expressed concern that the statement of revenue and expenditure reflected capital related expenditures in an inappropriate manner. The Government took action on our concern. It revised the basis of disclosure of capital related expenditures during the 1987 fiscal year. Accordingly, the prior disclosure deficiency has been resolved and our audit report on the Public Accounts is not qualified in this respect this year.

However, changes still need to be made to the Government's fixed asset accounting policies. It is important to provide information which assists a reader in determining the extent to which Government expenditures provide long-lasting assets. There also must be a better basis for measuring the impact of capital expenditures on operating results. Current government accounting policies across Canada require that capital expenditures be fully reflected in appropriations for the year. More complete information about physical assets by type, such as buildings, highways, bridges and equipment, would assist a reader to understand that the Province has acquired an infrastructure and other physical assets which will benefit future periods. Schedule 1 to the summary financial statements in the 1987 Public Accounts provides increased information regarding capital related expenditures. The Schedule also provides information regarding the components comprising the Government's net budgetary requirement. This is useful information. Further information regarding the Government's physical assets would also be useful for assessing future Government requirements for operation, maintenance and replacement. Information which could assist in assessing future requirements include particulars regarding the nature of the expenditures, the entity which owns the assets, the dates of acquisitions, expected useful life and particulars concerning the maintenance expenditures which are currently required by the existing physical asset infrastructure. To enable an understanding of the specific nature of the Government's capital related expenditures, we recommend that Public Accounts provide more complete information regarding capital related expenditures.

Fragmentation of Operating Results

As stated in my opinion on the Consolidated Fund financial statements, there is a fragmentation of the Government's operating results. Fragmentation of operating results occurs because expenditures within the summary statements comprising Public Accounts are reflected in an incomplete manner and, as a result, the reported net budgetary requirement (excess of expenditures over revenues) is understated for the fiscal year. Incomplete information reduces the usefulness of Public Accounts to legislators, the general public and other interested parties.

Accountability is the cornerstone of all financial reporting in government. Financial reporting plays an important role in fulfilling a government's duty to be publicly accountable in a democratic society. It is for this reason that we are concerned about any accounting policies or reporting practices that fragment operating results. Fragmentation of operating results reduces the level of accountability the Government demonstrates for resources obtained from the taxpayer.

REVENUE AND EXPENDITURE

The Government has been taking a number of steps to develop Public Accounts in a manner which better reflects its operations. These actions are generally supportive of, and consistent with the recommendations by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants for developing standards of financial statement disclosure for governments. However, there are a number of individual situations where, in our view, the Government's policies and practices do not result in appropriate disclosure. The following paragraphs provide information regarding the fragmentation of operating results.

The Government has adjusted its accounts and written down $185 million in loans, advances and investments which are considered non-recoverable. The write-down of certain of these loans, advances and investments has been recorded directly to the excess of liabilities over financial assets. Included in this adjustment are increases in the valuation allowance of $49.8 million for losses by Crown entities incurred in 1987. As a result, these 1987 increases in the valuation allowance are not reflected in the statement of revenue and expenditure and the net budgetary requirement. The financial statements present these matters on a basis consistent with the Government's accounting policies. However, the presentation results in a fragmentation of operating results. Our report on the Consolidated Fund financial statements has been qualified with respect to this matter. The effect of this presentation is an understatement of the net budgetary requirement of $49.8 million. Appropriate presentation would be to include the increase in the valuation allowance for 1987 operations as an expenditure prior to the determination of the net budgetary requirement.

The Manitoba Development Corporation is required to make certain payments as a result of its divestiture of Flyer Industries Limited. The Government has accrued $7.6 million in its financial statements to recognize the Government's responsibility to provide these funds when they are required. The Government has charged this $7.6 million directly to the excess of liabilities over financial assets. Accordingly, the net budgetary requirement on the statement of revenue and expenditure is understated by $7.6 million. This has resulted in a qualification of my report on the Consolidated Fund financial statements.

The combined effect of the preceding two paragraphs is that the net budgetary requirement as disclosed in the Public Accounts for the year ended March 31, 1987 is understated by $57.4 million. These matters do not affect the reported excess of liabilities over financial assets.

The Government is in the process of significantly improving its accounting policy for recognition of Crown entity losses. The new accounting policy is disclosed in the Public Accounts in note 12 and in the application of the accounting policies. With this new policy, non-recoverable losses incurred in subsequent fiscal years covered by a valuation allowance, will be included as expenditure in the immediate following fiscal year. The year ending March 31, 1989 will be the first fiscal year to reflect an appropriation for these losses. This will provide an opportunity for the Legislative Assembly to compare the merits of such expenditures in relation to other Government programs.

Loans and advances to Crown Corporations, Agencies, Boards and Commissions includes a loan of $11 million to Manitoba Properties Inc.

(MPI). Inclusion of this amount as a loan is inappropriate because this amount does not represent a claim against other parties. Servicing of this amount will be through future charges to a Government appropriation. In that the Corporation provides services solely to the Government and receives operational direction from the Government, treating the Corporation as other than a part of the Government is unrealistic.

The Department of Government Services manages renovation and construction projects for all buildings owned directly by the Government or owned by MPI. During 1987, the Government began to use two different methods to account for and finance renovation and construction projects related to buildings owned by MPI. The classification of renovation and construction projects to be charged to an appropriation in the current year and which will be deferred to future years results in a fragmentation of the Government's operating results. One method is based on the criteria of whether the expenditure adds to the building or is expected to increase its remaining usefulness. The other method results in renovation and construction projects continuing to be financed as in previous years. In accordance with the Government's accounting policies, costs related to these projects are charged to an appropriation of the Department of Government Services in the year they are incurred.

Renovation and construction projects financed by MPI are accounted for differently. For these projects, the Government advances funds to MPI. The Department of Government Services manages the projects at no cost to MPI. The direct costs of these projects are paid by MPI from the advances received from the Government. It is intended that MPI will increase the rent charged to the Government in future years, so that MPI will have sufficient funds to repay its advances from the Government. The effect of this method of recording renovation and construction costs is to defer to future years costs which would have been charged to a 1987 appropriation had a consistent method of accounting for them been followed. The present accounting treatment results in an overstatement of recorded financial assets and an understatement of the excess of liabilities over financial assets and the net budgetary requirement by $11 million for the year ended March 31, 1987. This results in a fragmentation of operating results. This understatement is shown as a qualification of my report on the Consolidated Fund financial statements.

The method of accounting for physical assets needs to be significantly revised. The method currently followed causes a fragmentation of operating results, because it fails to recognize that many expenditures on physical assets benefit more than one fiscal period. The reporting of renovation and construction costs is a part of the larger issue facing Government today with respect to the accounting for physical assets. Clearly, certain of the Government's capital expenditures do benefit future periods. At the present time, with the exception of the advances to MPI described above, these capital expenditures are included in the reported excess of liabilities over financial assets. We recommend that the Government initiate a special project to review the whole issue of accounting for physical assets. This review should result in the development of practical recommendations to improve the accounting for physical assets in the Public Accounts.

There is also an internal fragmentation of operating results within the Public Accounts. Commencing in the 1985 report to the Legislature, we have been commenting on MPI and the resultant borrowing costs being reflected as leasing costs. For the

fiscal year ended March 31, 1987, the Government's expenditures in the Department of Government Services include leasing costs for MPI of $59 million (1986 - $43 million). Prior to 1985, this type of expenditure was included as borrowing costs in the Department of Finance. In addition, borrowing costs in the Department of Finance during 1987 were decreased by $23 million (1986 - $18 million) as a result of interest earned on a note payable by MPI to the Government. The transfer of borrowing costs to leasing costs results in a further fragmentation of operating results.

In our 1986 report, we expressed concern that operating expenditures of a Government department were being processed through trust accounts and not reflected through the Operating Fund as Departmental expenditures. The required approval of the Lieutenant Governor in Council to transfer the funds to the Operating Fund was not obtained. As a result, the decisions being made and the expenditure by the Government were not being appropriately reported. This practice continued during the year ended March 31, 1987. These payments during 1987 amounted to approximately $1.2 million, the same as was reported last year. Department program expenditure flowing through trust accounts appears to be a problem in other jurisdictions as well. We understand this is a matter being addressed by PSAAC.

We have been reporting to the Legislature since 1984 that the Manitoba Development Corporation subsidizes the Communities Economic Development Fund. For the fiscal year ended March 31, 1987, this subsidy amounted to $.6 million (1986 - $.6 million). This subsidy should be provided from the Government's appropriation and included in the summary statement of revenue and expenditure. As a result of this funding arrangement, Public Accounts does not include the above-noted expenditures and the net budgetary requirement is correspondingly understated.

Commencing with our 1979 Report to the Legislature, we have been expressing concerns pertaining to interperiod inequity resulting from unreflected pension costs. As indicated in the Operating Fund Financial Assets and Liabilities section of this report, under the commitments subsection, Public Accounts fails to recognize the appropriate share of pension entitlements earned by civil servants, employees of Crown entities dependent on Government funding, teachers and members of the Legislative Assembly.

Fragmentation of operating results compromises the integrity of financial statements. The instances of fragmentation of operating results noted earlier in this section of our report highlight the need for the Government to broaden the basis for reporting on its operations. Two senior officials in the Department of Finance are participating in the work currently underway by PSAAC to develop accounting recommendations appropriate for governments.

Interest Expense, Duplication

We previously reported that the Department of Finance paid interest to the Manitoba Development Corporation on the funds the Corporation deposited with the Department. These payments caused a duplication of interest expense to the Government. The funds on deposit arose from equity financing of the Corporation provided by the Government, for which the Government incurs financing expenditures in its appropriation. The interest payments from the Government to the Corporation also fragment the Corporation's operating results.

REVENUE AND EXPENDITURE

During the year ended March 31, 1987, the funds on deposit were used in the divestiture of Flyer Industries Limited. Until the funds on deposit were depleted, the duplication of interest expense continued. Interest paid for the fiscal year ended March 31, 1987 approximated $0.6 million ($1.1 million for the fiscal year ended March 31, 1986). Because the funds on deposit have now been fully used, no further duplication of interest expense will result.

Variance Explanations

Explanations of significant revenue and expenditure variances are included in Public Accounts. For revenues, explanations are provided regarding significant variances with the Estimates for the current year and with the previous year's actual figures. For expenditure, however, explanations are provided only for variances with the previous year's actual figures. Because the Estimates form the basis for departmental operating plans, we previously indicated that explanations of significant expenditure variances from the Estimates would provide useful information for Legislators and would enhance management control. We also reported that the explanations provided by line departments for inclusion in Public Accounts were, in many cases, neither adequate nor received on a timely basis.

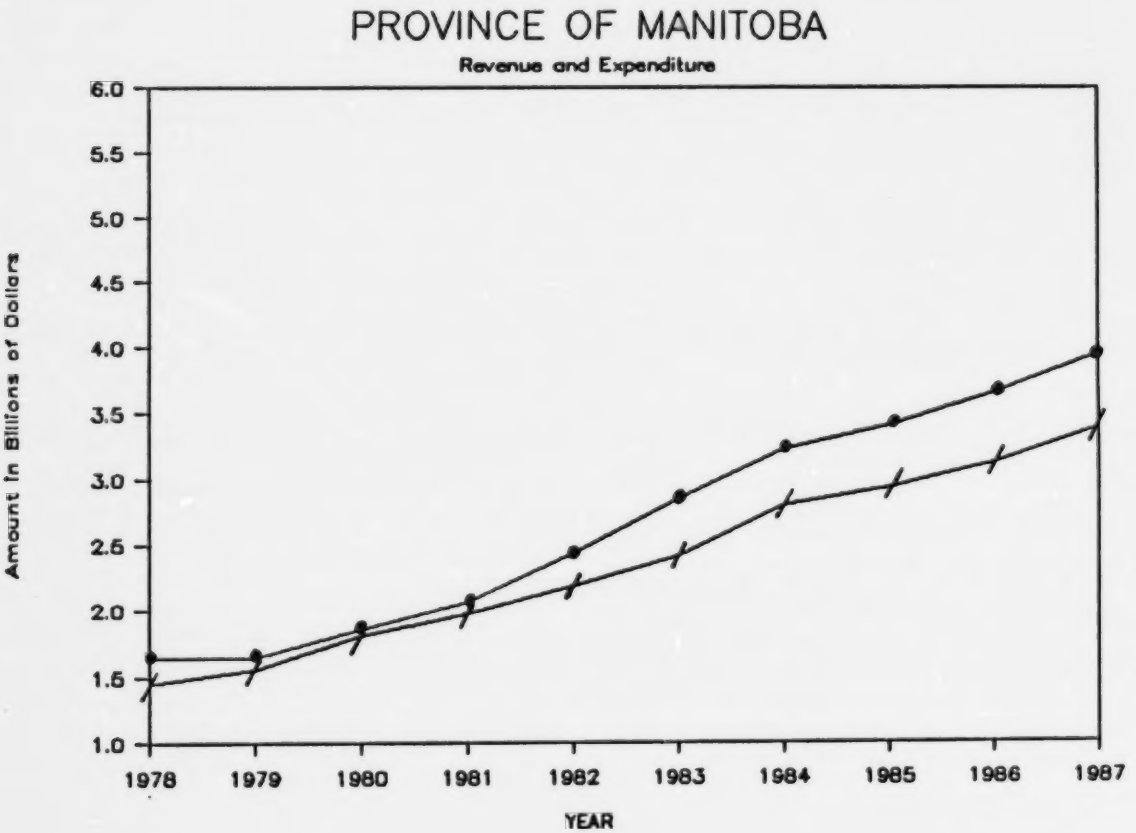
Expenditure variance explanations are in the process of being included in departmental annual reports. We have been advised that financial variance explanations will be discontinued in Public Accounts once a satisfactory level of financial variance reporting has been achieved. We have recommended that the Public Accounts Committee review departmental annual reports and have senior departmental officials provide accountability through the Committee to the Assembly regarding the actual results obtained from the funds provided in comparison with planned program outputs. In the Management Reporting subsection of the Government-Wide Reviews section of this report, we indicate the Government has established a process to strengthen accountability for departmental operations through increased reporting of departmental achievements and responding to questions raised by Treasury Board. Staff of the Department of Finance recently completed an analysis of departmental annual reports to determine the extent of departmental compliance with variance reporting requirements. The analysis indicates that although there are individual departments which fully comply with the variance reporting requirements, considerable further work is required to bring the other departments to this level. It will also be necessary to specify the next step in enhancing the informational content of the variance reporting for all departments. Accordingly, we recommend that developing appropriate variance reporting by all departments continue to receive emphasis.

Department of Finance officials are working with the Clerk of the Executive Council, Treasury Board Secretariat and line departments to resolve our concerns.

REVENUE AND EXPENDITURE

Historical Presentation

A graphic presentation of the revenues and expenditures of the Government of the Province of Manitoba for the ten fiscal years ended March 31, 1978 to March 31, 1987 inclusive is set out below.



Legend

/ = Revenue

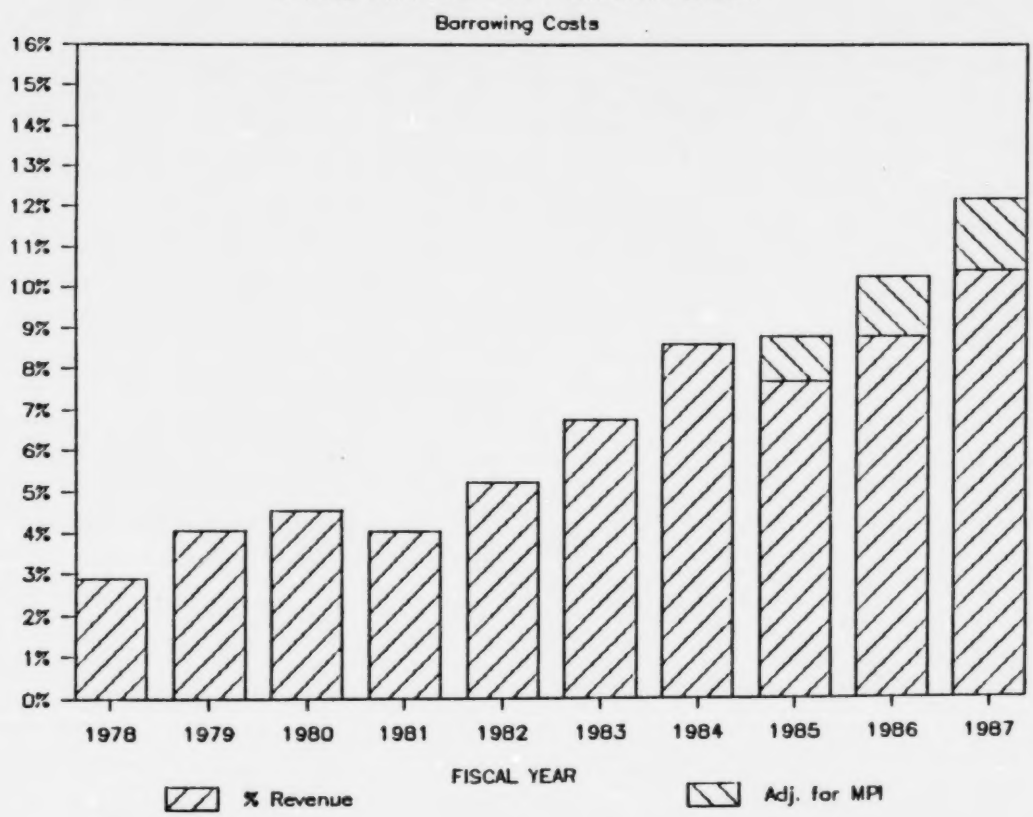
• = Expenditure

As indicated in the graph, the growth in revenue has not kept pace with the growth in expenditure since the fiscal year ended March 31, 1980. The Government's net budgetary requirements since that date reflects this condition. The expenditure amounts reflected do not include the annual investment valuation adjustments and prior period adjustments. These adjustments are made directly to the Government's excess of liabilities over financial assets.

REVENUE AND EXPENDITURE

Borrowing Costs

The following graph reflects the growth in net borrowing costs as a percentage of revenue for the ten fiscal years ended March 31, 1978 to March 31, 1987 inclusive.



The graph illustrates that for the past several years a progressively greater portion of the Government's revenues have been required for payment of its borrowing costs. The establishment of MPI had an impact on the Government's reported borrowing costs. As indicated in Note 3 of Exhibit 11 of this report, public borrowing costs would have increased by $60 million for the fiscal year ended March 31, 1987 ($46 million for March 31, 1986), if MPI operations had been consolidated with Public Accounts. During the ten fiscal years ended March 31, 1987 borrowing costs, as a percentage of revenue, increased from 2.9% to 12.1% after adjustment is made for the effect of MPI financing arrangements. The spending flexibility of the Government in other program areas decreases as borrowing costs increase. It is important that borrowing costs be managed within the ability of the Government to service its borrowings. To assist with this, long-term financial projections are required to assist the Government to develop spending plans in an appropriately priorized manner. This will also facilitate development of the Government's expenditure estimates and expenditure control initiatives. Only through the development and distribution of long-term financial projection information, can a meaningful review of the Government's past and intended management of its borrowing costs be undertaken by the Legislature.

SPECIAL WARRANTS

Special warrants are issued under the authority of section 42(1) of The Financial Administration Act. Special warrants provide authority for expenditures not foreseen or adequately provided for, and which are immediately required for the public good.

A summary of the Special Warrants issued during the fiscal year ended March 31, 1987, with comparative amounts for the preceding fiscal year is as follows:

Summary of Special Warrants by Departments

Department	Year Ended March 31 1987	1986
Legislation	$ 181,700	$ 3,076,300
Agriculture	5,432,300	8,613,000
Attorney-General	2,383,200	1,233,400
Business Development and Tourism	1,277,500	2,186,500
Civil Service	486,900	235,400
Community Services	4,705,100	6,543,100
Consumer and Corporate Affairs	280,000	41,400
Co-operative Development	5,300	183,300
Crown Investments	705,000	-
Culture, Heritage and Recreation	315,000	553,800
Education	4,278,500	1,537,600
Employment Services and Economic Security	12,140,300	14,333,300
Energy and Mines	76,500	13,500
Finance	3,504,800	2,019,200
Government Services	721,500	7,343,900
Health	35,181,500	31,147,700
Highways and Transportation	2,826,700	3,574,100
Industry, Trade and Technology	-	98,200
Labour	493,400	396,200
Municipal Affairs	1,900,000	-
Natural Resources	557,300	1,999,400
Northern Affairs	-	98,800
Public Schools Support	12,500,000	-
Emergency Interest Rate Relief	897,800	-
Flood Control and Emergency Expenditures	3,700,000	1,050,000
	$ 94,550,300	$ 86,278,100

Explanatory comments regarding the more significant Special Warrants are provided in Section 4 of the Public Accounts.

The special warrant for Public Schools Support of $12.5 million was to provide funds to cover a cash flow shortage for advances to school divisions.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

General Comments

The Government utilizing a departmental organization structure, provides a wide variety of social and economic services to the public. A number of central entities have been established by the Government to interrelate with departments in a manner which contributes to the development and maintenance of an appropriate management system. The size and complexity of Government is such that a formal management structure is required for the effective utilization of Government resources. Responsibility for the Government's central management system is vested in Treasury Board, with assistance from the Department of Finance, and the Civil Service Commission.

As the size and complexity of governments have been increasing, accountability has become increasingly important in the public sector. Over the years, the Government has established a number of mechanisms and processes including the Estimates, annual reports, committees of the Legislature and the audit process, which all contribute towards improved accountability. In previous reports, we provided recommendations for improving these processes. This report provides an update of these matters.

Department of Finance

Annual Budget

Previously, we reported that the public was more aware of the extent of deficit financing by governments and that there was an increased concern regarding the growth in government borrowing. To assist in evaluating the financial position and economic strength of the Province, we recommended the development and distribution of a multi-year financial plan. A long-range plan would assist the Government in providing reasonable assurance that decisions being taken are not extending the Government beyond its financial limits and would be of assistance to departments in clarifying long-term priorities and objectives. We also indicated that this plan could assist members of the Legislature during their annual review of the budget and Estimates.

We appreciate that long-term forecasting of future economic conditions is not easy. Because of changing conditions, actual results will always deviate from forecasts. The usefulness and importance of long-term forecasting, however, is not impaired by changed economic conditions. Of overriding importance is that long-term forecasts can assist in understanding current requirements and in making difficult resource allocation decisions.

During each of the last three years, the Standing Committee on Public Accounts discussed our recommendations concerning the development of a multi-year fiscal plan. At this year's meeting in June 1987, the Government reported it was reviewing a number of financial planning matters.

Subsequent to our last report, the Government received a consultant's report, Expenditure Management - A Review and Recommendations for Reform. This report recommended the Estimates approval process shift from a one year basis to a five year basis. The Government reviewed and carefully considered this report. As a result of that review, action has been taken, and is in the process of being taken, on a number of the recommendations in the report. This includes the development of a framework which will assist in long-term planning and multi-year budgeting. Because of the importance of long range planning on the management and control of Government operations, we recommend that the Government

continue to deal with this matter on a priority basis.

Legislative Expenditure Estimates

In previous years, we expressed concern about the lack of legislative control over the Manitoba Jobs Fund appropriation. The Legislative Estimates material only allocated the expenditures by major sector. Consequently, there was no detail for the programs planned, the administrative costs, or the departments responsible for program delivery. Presenting Jobs Fund information in this manner impaired the Legislature's Estimates review process and the Government's accountability to the Legislature. Accordingly, we recommended that an estimates supplement document similar to those required for each of the operating departments be prepared and distributed for the Jobs Fund appropriation.

The Government has taken action and has planned further action to resolve this matter. The Government has expanded the extent of information provided in the Estimates for the fiscal year ending March 31, 1988. This has been achieved through increased classifications regarding planned program expenditures. We also note that beginning with the 1988-89 Estimates, delivery departments will be including Jobs Fund program details within their own supplementary expenditure documents. We expect that implementation of this plan will resolve our concern.

Manuals, Directives and Guidelines

In our previous report, we indicated that information regarding the Government's management philosophy and management systems had been developed and approved by Treasury Board. We also indicated that the Management Practices Guide had been developed and that it was in the process of being distributed.

The Guide, distributed in 1987, provides policy direction regarding acceptable management standards. It is to serve as a reference document for use by all levels of departmental management. Managers are expected to be fully conversant with the principles embodied within the Guide. Application of these principles in their day to day operations will assist managers in maintaining an appropriate level of control. Staff in the Department of Finance have held training sessions to familiarize departmental staff with the standards in the Guide.

We consider the development and distribution of the Management Practices Guide to be a significant step towards better management in the public service. We will not be updating this matter in future years on a broad basis. Observations regarding inappropriate management systems and processes will be dealt with on an individual department or agency basis.

Information Systems Support Branch

For the past several years, we expressed concern over the lack of a computer processing disaster recovery plan. An appropriate plan is necessary to enable the Government to keep essential systems operating if the Government's main computer facility becomes inoperable.

Over the years, steps have been taken towards resolving our concerns. Arrangements have been made by Manitoba Data Services (MDS) for alternate computer processing at another facility in the event of a disaster. Tests have been performed by MDS personnel at the alternate facility. The Information Systems Support Branch has issued a systems policy to all departments regarding back-up and

security requirements. The purpose of the back-up and security requirements is to ensure that departments have the ability to continue critical operations in the event of a disaster.

During the current year, some further progress has been made. Departments were required to identify and priorize their critical systems. The Branch has reviewed the departments' system plans and is presently conducting seminars to help departments address computer system security and disaster recovery. The Branch is also currently developing a long-term strategy to address computer system security and disaster recovery.

Progress has been slower than expected. The identification of critical departmental systems for subsequent priorization on a Government-wide basis has not been completed. Accordingly, the means by which disaster recovery procedures are to be implemented and the resources required to operate such critical systems still have not been identified. As a result, the Government remains vulnerable to a prolonged stoppage in critical computer operations. We recommend that a plan and timetable be developed and approved to resolve this matter as soon as practicable.

Treasury Board Secretariat

Changes have been made to strengthen Government operations. A separate Treasury Board Secretariat was established. The Secretariat's mandate is to strengthen and improve Government decision-making, through the development of an improved expenditure management process and the establishment of a firm management approach for scarce resources. To support this mandate, three analytic units have been established. Each of these units is responsible for providing recommendations to Treasury Board regarding the various governmental programs assigned to them. A fiscal planning office and an office for expenditure review have also been established within the Treasury Board Secretariat. The fiscal planning office is responsible for strengthening the accountability relationships to Treasury Board through enhanced monitoring and reporting. The expenditure review office is responsible for assisting Treasury Board to reduce the Government's expenditure base. This recent Government action is a positive development and we are supportive of the steps being taken.

Planning and Priorities Committee of Cabinet

The Government established a Planning and Priorities Committee of Cabinet. One of the important functions of this Committee is to ensure that increased emphasis is placed on significant policy issues. The activities of this Committee include the allocation of resources based on Government priorities. A long-range planning capability forms another important part of this Committee's responsibilities.

Civil Service Commission

Managerial Resources

Last year we expressed concern about slow progress in developing an appropriate comprehensive managerial resources management program for the Government. We reported that Cabinet had authorized the establishment of a steering committee to examine alternatives and proposals for the development and implementation of an executive development program. Cabinet had also authorized a working committee to develop alternatives and proposals.

Satisfactory progress has recently been made. The steering

committee was established and is composed of eleven senior Government officials. This committee is chaired by the Clerk of the Executive Council and the vice-chairperson is the Civil Service Commissioner, the most senior executive of the agency responsible for human resource development. As indicated last year, the steering committee had agreed that the Executive Development Program should focus upon three areas: overall strategy for the development of senior managers, development and training of existing managers and encouragement of transfers and lateral movement within the system.

The steering committee then established a working committee of twenty-eight senior managers from across the Civil Service. Members were nominated by their Deputy Ministers and arranged in sub-committees to address six issues: experiential development opportunities, performance management, structured management training, corporate succession planning, communications/interface within excluded management groups, and networking/innovative forms of development.

The first working committee meeting was in January, 1987 and recommendations from all sub-committees have now been submitted. Their recommendations are currently being reviewed by a committee in order to coordinate the proposals, to identify short and long-term priorities and to develop a formal presentation to the steering committee. The coordinating committee expects to make this presentation in late 1987. After review by the steering committee, a policy proposal will be submitted to Cabinet for consideration and approval. We acknowledge the significant efforts recently made towards developing an appropriate comprehensive managerial resources management program. We consider the development of an appropriate comprehensive managerial resource management program as an essential ingredient to sound administration on a long-term basis. We urge the Government to continue this undertaking on a priority basis.

Also, we have for several years expressed concerns relative to management classification and compensation programs. The efforts directed toward implementation of The Pay Equity Act have now resulted in pay adjustments to reduce identified inequities between gender-dominated classifications. This step has been accomplished by utilizing for the first time a system for measuring the relative worth of diverse positions across all Government departments. Prior to the implementation of The Pay Equity Act, traditional factors, such as supply and demand, ability to recruit, the bargaining process, market surveys and other factors taken into consideration by the Civil Service Commission, were utilized in the wage setting process. The Pay Equity Act legislation added gender factors to this list. As we reported last year, the Government should be in a position to demonstrate that the principle of fair compensation practices is applied consistently throughout the Civil Service. The pay equity project used processes that could be usefully implemented in the Civil Service classification and wage setting processes. For example, a point rated system, such as that used successfully in the pay equity project, would be worth considering in the Province's classification system. There may well be other ideas that could be adopted to enhance pay equity throughout the Civil Service. We appreciate that an examination to ensure that there is pay equity across the diversity of the positions making up Manitoba's public service is an onerous undertaking. We also understand that a job rating scheme cannot be the only factor in determining equitable compensation. We believe,

however, that an objective review of the pay equity project will yield information useful to the Government in comprehensively assessing the fairness of its compensation practices.

We recommend that the Government conduct a post-implementation review of the recently completed pay equity project to determine the factors essential to equity in classification and remuneration. The review should result in recommendations to Government for enhancing the application of the principle of fair compensation throughout Manitoba's public service.

Also last year, we recommended that a general performance management policy should be officially communicated to departments by amendment of the Civil Service Personnel Manual. The Manual has now been updated to reflect the general performance management policy and the changes communicated. We therefore consider this matter resolved.

Personnel Information System

For several years we have been concerned about the reliability and timeliness of reports generated by the Commission's central personnel information system. These reports are generated to form the basis of an effective management of human resources at the departmental level. Lack of integrity in this information jeopardizes the system and obliges departments either to develop a comprehensive personnel information system or to supplement the centrally generated reports with reports developed by their own departmental system. In either case, additional efforts are required at the departmental level.

We reported last year that the Commission had been working on a project to upgrade the central system and develop a more efficient and effective process for reporting and monitoring personnel information. We also reported that Commission staff anticipated project implementation by late 1986. Our review this year, however, indicates they have experienced further delays due to staff vacancies and other Commission priorities.

Implementation is now expected during the latter part of 1987. We urge the Commission to complete this project as a priority matter.

Public Accounts Committee

We previously recommended changes to improve the effectiveness of the Standing Committee on Public Accounts. We recommended adoption of a process whereby either Treasury Board or the Minister of Finance provide a formal response to the concerns raised in our report to the Legislature. This information should be made available to the members of the Committee in advance of its first meeting and should set out the corrective actions to be taken. We also recommended that the Committee's review function be performed on a more timely basis. In addition, we recommended the Committee selectively review departmental operations with senior departmental officials present.

The Public Accounts Committee first met in June 1987 to review our report to the Legislative Assembly and the Public Accounts for the fiscal year ended March 31, 1986. Prior to that meeting, the Minister of Finance provided a formal response to our significant concerns and recommendations. We consider that this process contributed significantly to the effectiveness of the Committee by providing a focus for Committee discussions. Because our recommendation for a formal response

to our concerns has been acted upon, this aspect of strengthening the communication and accountability process has been resolved.

The Committee still is not meeting on a timely basis. Since the Committee is not restricted to carrying out its mandate while the Legislature is in Session, we again recommend that the Committee meet shortly after release of our report. More timely meetings by the Committee would increase the relevance of its review and would enable members to develop an earlier understanding of the corrective action to be taken. At the June 2, 1987 meeting of the Public Accounts Committee, this matter was discussed. At that meeting, a specific request to review our 1987 report in January or February of 1988 was made. We support this request to review our report much earlier and recommend that the Committee be called to review our report soon after its release.

The Committee is still not selectively reviewing departmental operations with senior departmental officials present. The role of the Committee could be strengthened by requesting senior departmental and Crown agency officials to appear before it and to respond to the Committee's questions about material in departmental or agency annual reports or matters raised in our report. Adoption of this process would provide Committee members with an opportunity to review specific concerns with the individuals responsible for their resolution. It would also enable Committee members to evaluate the appropriateness of plans arising out of the review of annual reports and actions planned to resolve concerns and recommendations identified by our audit process. The Committee would then be in a position to recommend revisions, should the intended plans be inappropriate. Adoption of this process would provide officials with a strong incentive to improve performance where required. Being called to appear before the Committee and to respond to the concerns raised would encourage officials to work hard to resolve any concerns raised and to administer their operations on a sound basis. In our view, the accountability cycle and the effectiveness of the Committee would be strengthened through the adoption of these processes.

To provide a further focus to the Committee meetings, we recommend that an outline of the questions to be raised at a Committee meeting also be distributed in advance. This would also provide the Department of Finance time to gather information requested by Committee members for tabling at the next meeting.

GOVERNMENT CONTROL OVER CROWN AGENCIES

Public Investments Corporation of Manitoba

The Legislative Assembly passed legislation in 1987 which establishes a new framework for the supervision of Crown corporations and their accountability to Government. A new holding company, the Public Investments Corporation of Manitoba, was created by this legislation to give direction on matters of policy and to monitor the operations of certain Crown corporations. The holding company will be directed by a board consisting of three or more members of the Executive Council. We consider this to be a positive step towards improved Government control over Crown agencies.

Compensation

We previously recommended that the Government establish a system to identify and rationalize significant variations in compensation levels among Crown agencies and between Crown agencies and the Civil Service for executives and senior managers excluded from the bargaining process. In our opinion, the absence of the rationale for the variances can lead to inequities, recruitment difficulties and morale problems among persons employed in the Manitoba public sector. We also recommended that the system provide advance approvals of salaries, bonuses and benefits paid to these officials. This process would enhance the likelihood of following fair and equitable compensation practices for all senior managers remunerated from public funds.

The Department of Crown Investments developed a system to monitor the salaries of senior executives and other managers in the Crown agencies. In order to address our concern about significant salary variations, the Department undertook a review of compensation arrangements for chief executive officers.

The review is being carried out to provide advice to Cabinet on a number of related matters. One of the factors to be considered will be salary levels for senior positions in the Civil Service. The review is to address the development of a methodology and supporting rationale for appropriate salary ranges for the most senior executives. It also addresses the requirement for the development of performance criteria to be used by boards of directors in assessing the performance of senior executives.

The provision of vehicles to senior executives is part of their compensation package. The wide range in current practices in Crown agencies illustrates the need for a more comprehensive policy on compensation in Crown agencies. Because provision of a vehicle is only part of the executive's remuneration package, this issue should be included as part of the overall review.

The compensation review should establish a rationale for future adjustments in compensation levels, and a process for maintaining consistency in the compensation levels and practices among Crown agencies. We recommend that Cabinet implement an appropriate action plan as soon as practicable. This recommendation is in the process of being implemented by the Government.

GOVERNMENT-WIDE REVIEWS

General Comments

We previously indicated that Treasury Board had taken action to strengthen the management function. During the 1987 fiscal year, we continued to monitor departmental progress regarding the planning and management reporting functions. We reviewed initiatives undertaken to strengthen management accountability through the development of improved departmental expenditure estimates information and departmental annual reports. We also undertook a general review of certain program expenditures and a limited review of personal use of assigned Government vehicles. The following provides an update regarding these matters and comments regarding our review of program expenditures and personal use of assigned Government vehicles.

Planning

In previous reports we commented on the importance of placing additional emphasis on the planning function in Government and the action being taken by Government to strengthen this function.

We also previously reported that a long-range planning process was required to lead to more appropriate annual planning. We reported last year that a review of this matter, led by a consultant, was underway. The consultant's report confirmed the importance of multi-year planning and provided recommendations regarding its implementation. The consultant's report also included a number of other recommendations to strengthen the planning process in Government. We are encouraged that the Government is acting on a number of these recommendations. The Government is in the process of changing Treasury Board responsibilities. The Government is also changing certain other Government committees. These changes will place greater emphasis on the policy issues that form part of the planning process. Improvements through the development of appropriate Government long-range plans and their communication to the affected Government departments and Crown agencies is important. These improvements will enable Government priorities to be appropriately considered in each of the departments and in the operation of the various Crown agencies. It is increasingly important that departments and Crown agencies undertake their planning and budgeting in a manner consistent with the Government's long-term plans so that overlapping of service provision and duplication of expenditures can be avoided.

Management Reporting

We previously highlighted the importance of management reporting in achieving appropriate accountability. We reported that departments needed to place considerable emphasis on this function. Reporting forms an important function in the accountability cycle. It provides the information link between planned outputs and actual achievements.

The Government also recently approved a new year-end expenditure review process. Management reporting and accountability will be strengthened through this process. The process requires selected departments to present a report to Treasury Board. This reporting process requires the Minister and senior officials of the selected departments to present their report and to respond to any questions raised. Their report is to include particulars regarding departmental objectives and achievements for the completed fiscal year, and future plans.

Supplementary Estimates information with better quantitative information should lead to improved

management reporting. This should also lead to better information in departmental annual reports regarding the extent of departments achieving their objectives.

In addition to these initiatives to strengthen the quality of departmental management reporting, departments are improving their reporting processes through their own initiatives. These improvements result from development of multi-year departmental planning and from more vigorous expenditure control than in the past. In addition, a number of departments are revising significant aspects of their computerized systems to improve the quality and timeliness of information. In one department, a new position with overall responsibilities for improving financial reporting systems has been established. Departments generally have been working to improve their management processes.

Changes to the Financial Administration Manual are also in progress. These changes relate to planning and financial reporting. Although the focus of the Financial Administration Manual is limited to financial administrative matters, the changes should contribute to an increased awareness of these two inter-related management functions.

Regular review and evaluation of departmental management reporting is important to assure accountability. The Government can receive assurance that departmental activities are conducted in an appropriate manner through adoption of these procedures. Accordingly, we recommend the Government monitor and evaluate departmental progress in establishing appropriate management reporting systems. This will enable the Government to provide assistance or direction in areas where departments are having difficulty in developing their management reporting capability. This will also assist in the development of appropriate departmental accountability.

Departmental Expenditure Estimates

In previous reports we indicated that better documentation of expected output data would provide greater management accountability and encourage operational effectiveness. We also indicated that significant benefits could be realized if estimate supplement documents were provided to members of the Committee of Supply prior to considering the departmental spending estimates.

For the 1987-88 fiscal year, departments were requested to develop supplementary estimates information documents. Although the supplementary estimates developed to date provide information relative to expected general outputs, the output expectation information is not sufficiently precise to enable members to develop an understanding of detailed program expectations. We recommend that the Government develop guidelines pertaining to expected output data to be included in the supplementary expenditure estimates.

Departmental Annual Reports

In previous reports, we expressed concern that departments were not preparing annual reports on a basis which provided appropriate accountability. For accountability to exist, annual reports must include relevant information and be prepared on a timely basis. This would permit a review and evaluation of departmental performance in comparison with planned outputs. In our most recent report, we indicated that not all departments prepared and issued annual reports. The Government has taken action to deal with this matter. All departments are now required to issue annual reports.

Accordingly, we consider this aspect resolved. The timeliness of preparation and the contents of departmental annual reports, however, are still of concern. Accordingly, we recommend that the Government direct departments to prepare and issue annual reports on a timely basis. We also recommend that the Government develop standards for the expected content in the annual reports with respect to output data.

Program Expenditures

As part of our audit for the fiscal year ended March 31, 1987, we reviewed governmental program expenditures on a broad basis. The purpose of our review was to identify program expenditures incurred in departments that pertained to other departments or Crown agencies to assess the magnitude of such expenditures and to evaluate the consistency with which charge-backs are made for services provided. We were concerned that priority Government programs did not reflect the level of financial support provided. We were also concerned that the accountability cycle could be weakened if the departmental control and decision-making process was based on incomplete information.

We found that significant expenditures are excluded from individual departmental appropriations and Crown agency expenses, as the amounts are incurred and reported centrally. The more significant of these central expenditures include office and other space related expenditures for leased premises, janitorial services, expenditures related to capital, and grants-in-lieu of taxes. These costs approximate $142 million for the fiscal year (1986 - $126 million). Central expenditures also include staff benefits such as employer payments regarding unemployment insurance, Canada Pension, civil service pensions, disability and dental plans, etc. These costs approximate $48 million for the fiscal year (1986 - $43 million). Other indirect costs absorbed by departments, without allocation or charge-back, mainly pertain to services provided on behalf of other departments and Crown agencies for training, staff recruitment, legal services, etc.

We also found that charge-backs are made for services such as telephone, computer utilization, rental of vehicles and equipment and other services. However, recoveries are not consistently handled. For certain central costs incurred, direct costs are recovered. In other instances, direct costs plus an element for overhead are recovered; in certain other instances, direct costs plus a depreciation factor are recovered. Other substantial costs, as indicated above, are not recovered at all.

There are advantages to reflecting costs centrally. These advantages include administrative processing efficiencies and overall reporting of costs by the nature of the expenditure. However, there are also disadvantages. Financial reports fail to reflect the full impact of financial support to priority programs of the Government in areas such as health and education. Also, the decision-making process is hampered when departmental responsibility centres and Crown agencies do not reflect the total cost of their operations. In these cases, there is an increased risk that departments and agencies make different decisions than they would if they had better information regarding their full operating costs.

There has been a gradual movement towards a more precise costing of departmental and Crown agency operations. However, this movement has been taking place without an overall policy framework to guide progress. To improve reporting of actual

program expenditures and to enhance decision-making information, we recommend that the Government implement a practical policy to allocate or charge-back significant centrally incurred expenditures to the applicable user departments and Crown agencies. We also recommend the Government develop a plan with an appropriate implementation schedule to bring this about.

Personal Use - Assigned Government Vehicles

Last year we carried out a special audit concerning possible irregularities in vehicle reporting by a government employee. As an extension of that special audit, we subsequently carried out a further review of personal use mileage reporting with officials in three departments that have a significant number of assigned government vehicles. Our review revealed that there was not a clear understanding of the reporting requirements for personal use mileage when an employee stops to conduct Government business between an employee's home and office. Employees with assigned government vehicles, and those with monitoring responsibilities, have exercised their individual judgement in determining what constitutes personal use.

The Government has established policies for personal use of assigned government vehicles. An official with the Administrative Policy Branch, Department of Finance, advised us that employees should determine the distance between their home and office; this distance is normally considered personal use even though Government business stops are made en route. During our review of the vehicle reporting practices with officials we were advised that employees do not always report personal use for the established distance between their home and office when business calls are made en route. In some cases, no personal use is reported; in other cases, the personal use is less than the established distance. Varying interpretations of what constitutes personal use expose departments and employees with assigned government vehicles to criticism, and may result in improper charges for personal use mileage.

We recommend that the Government clarify guidelines for personal use of government vehicles assigned to employees. Senior officials indicate that personal use of government vehicles is under review by the Government and its bargaining agents.

DEPARTMENTAL OPERATIONS

Department of Agriculture

Our audit for the 1987 fiscal year disclosed that accounts receivable monitoring and collection procedures require improvement. In particular, further action should be taken to reduce $360,000 in overdue accounts receivable. These overdue accounts receivable pertain to the Beef Producers Income Assurance Plan. This Plan, which was introduced in 1975, provided payments to beef producers when the market price of beef was below a support level price. If the market price of beef was above the support level price when the animals were subsequently marketed, the Department would then bill the producer for a portion of the proceeds in excess of the support level price, in accordance with the terms of the Plan.

Initially, there were approximately 3,500 accounts billed under this Plan. However, this number has been reduced to approximately 150 accounts as at March 31, 1987, as a result of collection, cancellations, deaths, etc. The principal receivable of $297,300 from beef producers has been outstanding more than six years. The total receivable includes $62,700 in interest charged on these accounts up to August 1981. Interest has not been charged since September 1981. The Department has sought advice on collection of these delinquent accounts from both the Attorney-General's Department and outside legal firms. The Department was advised that they were in a weak position to enforce collection because of changes to certain of the terms of the contractual agreements with the beef producers.

There has been no change in the status of the Beef Producers Income Assurance Plan accounts during the 1987 fiscal year. There has been no collection efforts on these accounts for several years. Between April 1980 and July 1985, the Department had sought direction to resolve this matter on several occasions. Effective direction has not yet been provided.

In addition to these accounts in the Department of Agriculture, the Manitoba Agricultural Credit Corporation (MACC) has related loans receivable. MACC introduced a loan program in the fiscal year ending March 31, 1981. Under this program farmers could borrow from the Corporation to repay their Beef Producers Income Assurance accounts with the Department of Agriculture. Initially, there were 83 loan accounts under this loan program. As a result of collection of 32 accounts and write-off of 4 accounts, the number of loan accounts has been reduced to 47 as at March 31, 1987. The total of the 47 accounts outstanding under this loan program as at March 31, 1987 is $123,190 including interest accrued to date of $15,206. The Corporation has taken only limited collection action in recent years. It has continued to mail statements of account to the borrowers at least on an annual basis.

The Department of Agriculture's Beef Producers Income Assurance Plan accounts and the MACC loan accounts are receivables arising from the previous disbursement of public funds. The respective officials have the responsibility to take appropriate collection procedures. Action on these matters is warranted to preserve and protect public funds, and to reduce related carrying costs. Action to resolve these accounts is also warranted to maintain equitable treatment with those farmers who have met their obligations and repaid their accounts.

We recommend that appropriate action be taken by the appropriate officials to resolve these accounts receivable. The Department's newly established audit committee should co-ordinate the efforts on this matter between the Department and the Manitoba Agricultural Credit Corporation.

Department of Business Development and Tourism and Department of Industry, Trade and Technology

We previously reported on the ineffective financial management systems in these two departments. The departments share a single Finance and Administration Branch. At the request of the two Deputy Ministers, the Systems Planning and Development Branch of the Department of Finance undertook a review of the continuing problems in the financial management function of these departments. A report was issued in November 1985. The report identified significant deficiencies and provided recommendations which, if implemented, should result in substantial improvements.

The newly appointed Director of Finance and Administration has reviewed the recommendations and developed an action plan. Improvements have been made to the departmental budgetary and expenditure control process, including the operation of a more effective commitment monitoring system. In addition, progress has been made in clarifying the role and responsibilities in the Finance and Administration Branch. The Branch anticipates the resolution of all identified weaknesses by March 31, 1988.

We are pleased that these matters are being addressed. We recommend the Departments continue their efforts to implement the recommendations to strengthen departmental financial management systems as soon as practicable.

We previously reported under the Government-Wide Reviews section that the Government had adopted a policy which requires departments to have an internal audit function that carries out a systematic review and appraisal of departmental operations. Neither Department has instituted an internal audit function. The Finance and Administration Branch has been allocated an extra staff year for this purpose but it remains vacant. We considered this to be insufficient progress towards compliance with the internal audit policy directive, particularly since an internal auditor may be of considerable assistance to management in their efforts to resolve the deficiencies in the Finance and Administration Branch, we recommend the position be filled forthwith. We have been advised that it is now anticipated that the position will be filled before January 31, 1988.

Department of Community Services

For several years we have reported that the Department's management control and monitoring responsibilities were not being carried out as effectively as expected. These are important elements of the comptrollership function. A weak comptrollership function has a serious impact on overall departmental operations. It allows control weaknesses to exist and, when identified, to take a long time to be resolved.

Since our last report, the Department has continued to strengthen its control and monitoring capabilities. A senior financial management position in the Administrative and Finance Division has been added and filled recently to strengthen the comptrollership function of the

Department. Progress has also been made in developing and implementing various systems so that the Department is more able to fulfill its management control and monitoring responsibilities. Specific matters requiring further attention include:

- improving the Department's commitment accounting system so that legislative expenditure authority is not exceeded,
- improving departmental monitoring of external agency accountability,
- resolving outstanding claims regarding Treaty Indian child welfare billings and completing revisions to the billing and claiming forms and procedures,
- implementing an automated information system to monitor service delivery in the Child and Family Services section of the Department, and
- developing an automated subsidy payment system for the child day care program which is intended to monitor and verify billings, and to calculate payments automatically.

We have expressed concerns regarding elements of the Department's comptrollership function for the last several years. As indicated above, there has been substantial progress towards resolving our concerns in the last two years. We recommend that this matter continue to receive the recent special emphasis until it is resolved. The Minister has stated that the Department is actively pursuing resolution of these matters.

Department of Crown Investments

Salary expenditures for a staff position used for the Department's operations were paid out of an appropriation voted for the Department of Industry, Trade and Technology for the 1987 fiscal year. This matter is reported for information only.

This situation developed in the following way. Funds were originally allocated in an appropriation voted for the Department of Industry, Trade and Technology for interdepartmental functions jointly carried out by both Departments. Over time these interdepartmental functions changed. This change was recognized by the Departments and appropriate action was taken to transfer the budgetary expenditure requirements for these functions to the Department of Crown Investments for 1987-88.

Although the amount of the expenditure was relatively small, this matter warrants comment because the expenditure of public funds other than for the purpose for which it was appropriated by the Legislature represents a departure from the systems for Legislative control and accountability. This practice can reduce management accountability and can result in inappropriate reporting of the financial operations of the Departments.

Department of Culture, Heritage and Recreation

Last year we reported that payments were made from a trust account which did not comply with the legislation that established the trust account. The Manitoba Lotteries Foundation Act placed restrictions on the use of the trust funds. The Act provided authority, subject to Lieutenant Governor in Council approval, for expenditures to be made from the trust fund and for the funds to be transferred into the Operating Fund for general Government purposes. Subsequent disbursements from the Operating Fund would be reflected in an appropriation. This method avoids fragmentation in

reporting operating results. Details of departmental Lotteries Foundation Act Trust Fund transactions are included in Section 5 of Public Accounts.

The Department continued to pay salaries of departmental employees and other administrative expenditures from the trust funds to directly deliver cultural, heritage and recreational programs during the fiscal year ended March 31, 1987. We recognize that any proposed use of trust funds is subject to the same internal review as other departmental expenditures. The Department obtained Lieutenant Governor in Council approval to carry out the activities funded from the trust account. However, the Lieutenant Governor in Council approval obtained was narrower than required in that it did not provide for the transfer of these funds to a revenue account of the Operating Fund for expenditure purposes in the Operating Fund. The amount of these payments during 1987 was approximately the same as the $1.2 million reported last year. Similar payments continued after March 31, 1987. Department program expenditure flowing through trust accounts appears to be a problem in other jurisdictions as well. We understand this is a matter being addressed by the Public Sector Acccounting and Auditing Committee of the Canadian Institute of Chartered Accountants.

Effective July 17, 1987 The Manitoba Lotteries Foundation Act was amended to enable the Department to make the type of payments it had been making without the transfer to the Operating Fund. This amendment to the Act resolves our concern regarding non-compliance with legislation. We have a continuing concern relating to the fragmentation of reported financial operating results in Public Accounts.

Department of Education

For several years we have recommended action to eliminate the inequity to education financing. The present system results in a net subsidy to municipalities at the expense of education financing. This inequity to education financing and subsidy to municipalities results from inconsistencies in the date school tax levies are collected by municipalities and the due date for remittance to the Public Schools Finance Board and school divisions. The transfer date to the school divisions and the Public Schools Finance Board is set by Government Regulation 12/81. The present system results in a net subsidy to municipalities at the expense of education financing.

Departmental officials reviewed the available options and made recommendations to the Minister of Education. The most recent analysis by the Department of Education, in March 1986, indicates that if the recommended option was adopted, it would result in a net reduction of $3.8 million in costs to the Public Schools Finance Board and an additional net reduction of $2.8 million in interest incurred directly by school divisions from a reduction in the delay in receipt of the municipal school tax levy. The analysis has not been updated for 1987 and there has not been any progress in resolving our concern in the year ended March 31, 1987.

It is appreciated that it is not easy to make changes affecting the financing of municipalities and school divisions when changes to the present methods of property assessment are in process. Although the Department has developed a recommendation to deal with this matter, the Government has not yet taken action on this. We are disappointed in the lack of progress on

this long outstanding matter. If there is to be a subsidy provided to municipalities, it should be done in a more direct manner. We recommend that a plan with a timetable to address and resolve this matter be developed as soon as practicable.

Department of Finance

The Government's financial statements need to be completed on a timely basis. The information provided in these statements is important to assess Government financial operations and management. Its usefulness, however, diminishes as time elapses.

We recognize that the Department of Finance has attempted to assemble the necessary data on a more timely basis. We also recognize that there have been unusual and complex issues which have delayed the process in recent years. However, the delay is still a concern. Although a preliminary statement was available in early July, the Government's summary financial statements were not completed until December. Significant contributing factors to the 1987 situation were undue delays by certain Crown agencies in completing their financial statements. We note, however, that the Government of Canada and several other larger provincial governments issue their financial statements on a more timely basis.

Because the results of the Government's operations must be available earlier if they are to be used effectively, we recommend the Department of Finance review its procedures for finalizing the annual financial statements. We also recommend that deadlines be set for the Crown agency financial statements to be completed. To facilitate an earlier completion of the financial statements, it may be necessary for the Department to consider seconding additional staff during the financial statement preparation process. The Department also should review the necessity of the information currently reported in Public Accounts, with a view to eliminating any unnecessary information.

Department officials have recently considered several new proposals which, if adopted, should speed up the process. We encourage the adoption of relevant proposals which would result in Public Accounts being made available on a more timely basis.

Department of Northern Affairs

We have concerns regarding the current operating level of certain of the Department's management functions. The Department's planning, reporting and comptrollership functions require improvement.

Planning has not progressed much beyond the Department's role and mission statement. Improved planning policies and procedures are required for the Department to appropriately identify key departmental responsibilities, goals and objectives, to establish a clear link between planning and budgeting and to develop annual operational plans for each organizational unit with targets and milestones. Appropriate planning is the fundamental function whereby management determines departmental objectives and the means to achieve them. It provides the framework for subsequent controlling and evaluating. It provides a link with management reporting and the evaluation process, which complete the accountability cycle.

The Department's management reporting function also needs to be significantly enhanced. Because it directly links with the planning function, it is unreasonable to expect this function to be effective without significant improvement in the planning function. The departmental management reporting

systems are not documented and not communicated throughout the Department. Written reports which compare actual results with planned objectives are not prepared. While maintaining a reasonable balance between formal and informal systems, the management reporting systems should concentrate on the gathering and assembling of key results information, which can be presented in a manner consistent with the Department's plans. Management would benefit from having better information for its decision making and from having an improved ability to track key result expectations.

The Department also needs a more effective comptrollership function. Internal control weaknesses and slowness in correcting known concerns are problems which have been identified regarding the Department's operations. The system of internal control and related weaknesses concerning grant accountability, monitoring of accounts and taxes receivable, and the reconciliation of assessments for grants-in-lieu of taxes from one year to the next year are matters requiring attention. Improvements in these areas would enhance the ability of management to control daily operations and ensure that systems operate as intended.

We recommend that the Department develop an appropriate planning process, develop its management reporting systems and strengthen its comptrollership function.

The Department is currently reviewing its planning function and intends to place greater emphasis on planning. Subsequent to that review, the Department intends to take action to develop its management reporting systems. The responsibilities and reporting relationships of senior departmental officials are also being revised to strengthen the comptrollership function.

Various Departments - Overexpenditure

On an annual basis, the Government presents its budget for debate and approval by the Legislature. Upon formal approval of the budget, the Legislature delegates authority to disburse funds for the purposes approved and within the limits approved. This is a very important legislative control. When this legislative control is by-passed, legislative control over Government spending is weakened, and the Government's targeted financial operating results are in jeopardy of not being achieved.

Last year we reported that a significant number of departments incurred expenditures in excess of their spending authority. This situation occurred again in 1987. While we recognize that the total overexpenditure is not large in relation to the Government's overall operating budget, management controls should be in place to alert appropriate authorities, in sufficient time, so that appropriate administrative procedures can be activated to prevent overexpenditures. This matter is being reported because it reflects non-compliance with legislative authority. For the fiscal year ended March 31, 1987, we noted sixteen instances affecting twelve departments (1986 - sixteen instances, eleven departments) where expenditures of approximately $4.0 million (1986 - $3.9 million) in excess of legislative spending authority were incurred. The expenditures in excess of the departments' legislative authority have been paid as Late Accounts and charged to the appropriations for the fiscal year ending March 31, 1988. The following schedule provides a summary of authorities that were exceeded for the fiscal year ended March 31, 1987.

DEPARTMENTAL OPERATIONS

Department/ Program	Unexpended (Overexpended) as at March 31, 1987	Late Accounts to August 31, 1987	Overexpenditure
Legislation			
- Ombudsman	$ 3,662	$ 5,665	$ 2,003
Agriculture			
- Drugs and Semen Purchases	1,131	46,220	45,089
Attorney-General			
- Criminal Justice	15,022	129,708	114,686
- Law Enforcement	4,479	24,247	19,768
- Court Services	48,118	132,776	84,658
Community Services			
- Registration and Licensing Services	3,478	8,120	4,642
- Child and Family Services	277,244	3,507,606	3,230,362
- Corrections	26,662	116,435	89,773
Consumer and Corporate Affairs			
- Corporate Affairs	81,582	186,136	104,554
Culture, Heritage and Recreation			
- Communications Services	(36,354)	70,565	106,919
Education			
- Program Development Support Services	690	153,114	152,424
Employment Services and Economic Security			
- Administration and Finance	9,325	19,749	10,424
Finance			
- Federal Provincial Relations and Research	4,787	23,991	19,204
Industry, Trade and Technology			
- Industry and Trade	14,210	28,799	14,589
Natural Resources			
- Fisheries	4,297	18,300	14,003
Northern Affairs			
- Agreements Management and Co-ordination	267,761	300,785	33,024
	$ 726,094	$ 4,772,216	$ 4,046,122

Our previous report indicated that Department of Finance Treasury Board support staff were to review this matter and provide guidance to the departments involved in last year's overexpenditures. This review resulted in the development of a financial administration information circular regarding this matter. The extent of the overexpenditure this year, however, indicates that the departments' efforts to correct this situation have not been effective. We consider departmental overexpenditure of legislative authority to be a serious matter. However, we recognize that only the Department of Community Services had significant overexpenditures. Accordingly, further effort is required. We recommend that action be taken to prevent recurrence of departmental overexpenditures.

AGENCY OPERATIONS

Brandon University

Last year we reported concerns about the University's ability to repay a significant bank loan related to previous construction of its new music building. We were concerned that, although the University had been directed by order-in-council to repay this bank loan from its own funds, the University might require assistance from the Consolidated Fund to repay the loan.

Since then, the University has identified and confirmed its capital priorities, placing the removal of this debt as its top priority. Discussions are being held between the University and the Universities Grants Commission to address this issue.

Channel Area Loggers Ltd.

In the past, the Company has experienced considerable difficulty in following prudent business procedures pertaining to its record keeping and reporting to the Board. One of the objectives of Channel Area Loggers Ltd. is to train residents of the Berens River area to be both skilled employees and competent managers. Last year we recommended that the Company receive ongoing assistance from the Government to ensure that appropriate reporting to the Board would take place; that Company assets would be properly safeguarded; that prudent business practices would be followed; that accounting records would be maintained in a current position; and that employees' management and administrative skills would be strengthened.

The Company made considerable improvements in these matters over the past year. The Department of Northern Affairs provided ongoing assistance on business and financial matters. As well the Department provided additional funding to cover the costs of special on site training for the Company's bookkeeper in following the business operating practices set out in the Company's procedures and policy manual. The Company achieved some stability and continuity in its bookkeeping function, so that accounting records were maintained in a more current position. This resulted in an improved flow of timely and comprehensive information to the Board, which helped to facilitate a better concentration of efforts on matters of significance. While further improvements are still needed with respect to certain asset control procedures, we are satisfied with the progress made over the past year, with the improvements in developing administrative and management skills and with the plans to resolve our concerns.

Communities Economic Development Fund (CEDF)

For the last two years, we have reported that there were deficiencies in the Fund's documentation and monitoring policies and procedures with respect to the loans it makes. The Communities Economic Development Fund lends public funds. The need to demonstrate a high level of public accountability for these funds is greater than for private sector lending institutions. Investors and depositors provide resources to lending institutions in the private sector voluntarily. However, the same is not true for taxpayers. For this reason, we expect a high standard of accountability from an organization which lends taxpayer money. While certain improvements have been made, a number of further improvements are necessary before we would consider the Fund's operations to be at an appropriate level.

For a lending operation such as the Fund four key standards are expected to be in place:

1. The Fund should obtain and analyze pertinent facts and data before recommending or approving a loan.

2. The Fund should make loans on the basis of a business case that clearly shows the likelihood of the loan recipient being able to repay the loan.

3. The Fund should monitor loans on a regular and timely basis to reduce the risk of loss to the Fund.

4. The Fund should maintain high standards of documentation.

Making loans in the Fund's environment is risky at the best of times. In any organization mistakes in judgement can occur. Clear policies for documentation of loan activities and adherence to such policies is required to reduce the risk of errors in judgement due to inadequate information.

The Fund has taken a significant step towards improving its administrative practices for its lending operations by developing a basic procedures manual for the guidance of its employees. While we recognize that the Fund has met the expected standards for certain of its loans, the level of documentation supporting adherence to the above standards requires improvement.

We noted the following examples which we believe indicate the need for improved administrative practices. We noted one loan which was issued on the condition that the principal subsequently relocate to Manitoba. Subsequent to the funds being disbursed the individual did not relocate. In another case, a loan was provided even though the Fund's Board documented that the loan was not within the usual purview of the Fund. A third loan was considered by the Board and forwarded to the Minister for approval even though the Board noted that three basic researching criteria had not been met. Completion of these basic researching criteria was identified as a condition still to be met when the loan was forwarded to the Minister of approval. Subsequently the required researching criteria was completed and a decision was taken not to proceed. The Board's by-laws require ministerial approval on loans in excess of $150,000. Two loans were issued, at different times, in a cumulative amount of $196,000 without ministerial approval. Subsequent ministerial approval is being obtained.

We recommend that the Fund continue to develop a practical approach to loan evaluating, monitoring and documenting which meet industry standards, while recognizing the special trust relationship the Fund has for public funds under its control.

We also noted the need for improvements in the Fund's management practices and procedures. This includes strengthening the Fund's planning, organizing, reporting, controlling and evaluating functions, together with the policy documentation, staff training and performance management activities. We recommend that the Fund review and improve these aspects of its management practices.

We further recommend that the Government consider strengthening the Fund's Board to enhance the Board's overall experience and expertise in managing lending operations. We also recommend that Board members be provided with improved orientation sessions regarding roles, responsibilities, policies and procedures of the Fund to assist them in carrying out their responsibilities.

In summary, while the Fund has taken steps to improve its control

over operations, further improvements are required.

The Fund has recently undertaken significant effort to address these concerns. It has, in this regard, initiated a project intended to assure resolution of the identified issues. The Fund has indicated that external expertise will be obtained as required.

In November 1986, CEDF officials incorporated a wholly-owned subsidiary. Section 9(b) of the Communities Economic Development Fund Act, empowers the Fund to create such corporations, subject to the approval of the Lieutenant Governor in Council. This subsidiary was urgently required to assist in the process of protecting the Fund's position with respect to one of its loans. This action effectively safeguarded public monies and was taken after receipt of a preliminary legal opinion. However, the Fund did not obtain the required approval for the incorporation of the subsidiary as specified in the Act.

We recommend that the Fund seek retroactive approval of this incorporation from the Lieutenant Governor in Council to bring this aspect of operations into compliance with its legislation.

The Fund's officials advised us that appropriate approvals will be obtained.

Legal Aid Services Society of Manitoba

We have reported for several years that the Society has had to delay payment of accounts at year end because the level of funds provided by the Government did not meet the Society's expenditure requirement. Officials of the Society and the Department of the Attorney-General resolved this matter during the year ended March 31, 1987 by providing sufficient funding for the Society's operations to prevent a significant deferral of expenditures.

Manfor Ltd.

Manfor continued to experience losses on its operations in the year ended December 31, 1986. The loss amounted to $5.3 million ($31.3 million for the fifteen month period ended December 31, 1985). The accumulated deficit as at December 31, 1986 was $128.5 million.

Manfor's operating results for the year ended December 31, 1986 represent a significant improvement over the previous period. The Government, Board, management and staff deserve credit for bringing this improvement about. External economic factors also assisted with this improvement. However, Manfor Ltd. cannot be regarded as a self-sustaining entity as long as losses continue. Of primary concern, over the long run, is the Corporation's ability to generate sufficient funds to replace plant and machinery. This will require substantial sums of money in the future. At the present time, there is no reliable indication the Company will ever be able to generate the cash from operations required to replace the plant and machinery.

Last year, we recommended that Manfor Ltd. continue its efforts to improve the management practices, especially in the areas of long-range planning, budgetary procedures, costing and financial information systems.

The Board and management have made significant progress in improving its management systems. Further work is still required. The fact that the budget for the year ended

December 31, 1986 represented a realistic plan for monitoring operations is a step in the right direction. We have been advised that the Company plans to continue to expand computerization of its operations in 1987. The computerization is planned to bring about improvements in the budgeting procedures and financial information system. The Government is pursuing the divestiture of Manfor Ltd. Pending a decision on the divestiture, we encourage the Company to continue its efforts to bring long-range planning, budgeting, costing and financial information systems to an appropriate level.

Manitoba Beef Commission

We have been concerned for several years with the long-term viability of the Commission and its ability to repay advances received from the Government. It is our understanding that the Commission was intended to be self-sufficient and to conduct its operations without a subsidy from the Government. From inception in September 1982 to March 31, 1987, the advances from the Government have reached $33.5 million, of which the Commission has drawn $28.6 million, with the balance of $4.9 million being held by the Department of Finance in a trust account for the Commission. The deficit has increased to $28 million. The Commission made changes to the plan in the fall of 1986 to reduce the support price payable to beef producers. These changes, in combination with improved market conditions have resulted in a loss of only $.7 million for the year ended March 31, 1987. This compares favourably with the losses of $11.5 million and $7.5 million experienced for the years ended March 31, 1986 and 1985, respectively.

We have recommended for several years that the Commission develop a long-range plan which provides a realistic approach to the goal of self-sufficiency and to the repayment of the advances from the Government. The lack of a formal long-range plan which deals with the uncertainties of future circumstances, makes it more difficult for the Commission to achieve these goals.

Officials have advised that a long-range plan is currently being developed. A part of this plan is an informal arrangement with the Government whereby the Government will fund the portion of earned forgiveness provision on the deficit balances for terminated producer contracts. These contracts seriously affect the Commission's ability to repay advances from the Government. Producers would be required to repay the Commission any deficit balances in certain accounts when they terminate their contract, except that the regulation under the Farm Income Assurance Plans Act stipulates that the producers can earn forgiveness of this deficit. This forgiveness is earned when the producers meet certain conditions. The Commission has begun to calculate the amount of such forgiveness earned in each year. As a result, the Department of Agriculture has included $.5 million in its 1988 Expenditure Estimates to fund this forgiveness from the Commission's inception to March 31, 1988. The Commission has estimated that it will receive $10 million through this program by December 31, 1991.

Officials have advised that the long-range plan will be completed and presented to the Board shortly, and the Board will be apprised of actual results in comparison to the long-range plan on a quarterly basis. A senior Commission official has further advised that he will consult with officials of the Department of Agriculture with a view to formalizing the arrangement with the Government to fund forgiveness. These planned actions are reasonable and we

encourage their implementation.

Manitoba Development Corporation (MDC)

General

The Manitoba Development Corporation's activities under Part II of The Development Corporation Act are initiated by the Government. MDC acts as the agent for the Government in respect to the projects undertaken. Sections 41 and 42 of the Act and Section 7 of Revised Regulation D60-R1 require that the Government reimburse MDC for its costs incurred in respect to Part II activities.

As reported previously, MDC is not being fully reimbursed for costs incurred on behalf of Part II activities. This is not in accordance with the Act. This has been confirmed in a legal opinion which MDC obtained from the Attorney-General's Department. MDC estimates that costs of approximately $100,000 for each of the years ended March 31, 1985 through 1987, have not been reimbursed to MDC. These costs have in effect been absorbed by MDC. This increases MDC's loss by $100,000, in each of the three years, and results in a corresponding increase in the valuation allowance in the Public Accounts of the Government. This practice also understates departmental expenditures in the Public Accounts by an equivalent amount. This is another example of the fragmentation of operating results.

We are disappointed that prompt effective action has not been taken to ensure compliance with legal authority. In our view, the Government has not provided appropriate direction on this issue.

We again recommend that MDC and Government officials take appropriate action to ensure compliance with the Act. Officials at MDC have indicated that they intend to treat this matter as a priority.

Flyer Industries Limited Divestiture

Effective July 15, 1986, Flyer Industries Limited was sold to BV Carrosseriefabriek den Oudsten en Zonen. MDC's most recent estimate of the overall net cost of the divestiture to the Government is $103.4 million (1986 estimate - $96 to $100 million). Of this amount, approximately $14.7 million remains to be paid as of March 31, 1987.

A. E. McKenzie Co. Ltd. and Subsidiaries

Three officers of A. E. McKenzie Co. Ltd. were convicted of charges related to fraud. The Company has initiated civil action against the officers for recovery of assets lost as a result of their actions. This civil action has not been finalized as yet.

Saunders Aircraft Corporation Limited - In Receivership

We previously reported that Saunders Aircraft Corporation Limited was placed in receivership by the MDC on May 20, 1976. Over the years, we have provided a summary of cash transactions and other pertinent data from that date.

A summary of the receipts and disbursements during the period of receivership up to March 20, 1987 is as follows:

AGENCY OPERATIONS

	May 20, 1976 to Sept. 25, 1986 (reported last year)	Sept. 26, 1986 to March 20, 1987 (subsequent transactions)	Total
Receipts:			
Funds provided mainly for payment of liabilities and for working capital by:			
Manitoba Development Corporation	$ 351,184	$ -	$ 351,184
Government of the Province of Manitoba	176,942	-	176,942
	528,126	-	528,126
Proceeds from sale of assets	1,819,177	-	1,819,177
Collection of accounts receivable outstanding May 20, 1976	1,219,105	-	1,219,105
Aircraft leasing and other income	198,487	-	198,487
Interest income on surplus funds, net	459,697	4,282	463,979
Other	3,037	-	3,037
Total receipts	4,227,629	4,282	4,231,911
Disbursements:			
Funds transferred to the Government of the Province of Manitoba	1,591,567	-	1,591,567
Payment of liabilities outstanding May 20, 1976	557,519	-	557,519
Salaries, wages and benefits	360,501	-	360,501
Insurance premiums	533,436	-	533,436
Receiver's fees, legal and other professional costs	572,223	30,674	602,897
Other operating costs	495,869	1,620	497,489
Total disbursements	4,111,115	32,294	4,143,409
Receipts over (under) disbursements	$ 116,514	$(28,012)	88,502
Funds on hand May 20, 1976			26,173
Funds held by the receiver-manager March 20, 1987			$ 114,675

AGENCY OPERATIONS

The receiver-manager has advised MDC that once the legal documents are completed regarding the final realization from the receivership, he will assign MDC the right to collect the remaining $75,000 of the settlement. The receiver-manager then will apply to the courts to be discharged as receiver-manager. At that time, the remaining funds held by the receiver-manager will be transferred to the Government.

The Pas Forestry Complex - Receiver

The receiver's activities concerning The Pas Forestry Complex are substantially complete. A final settlement agreement was reached and funds, including interest, in the amount of $3,002,219 were transferred through MDC to the Government in May, 1986. Certain third party proceedings with respect to the settlement require resolution. Counsel has advised the Receiver to proceed with the discharge of the receivership. The Receiver will be applying soon to the courts to be discharged. The remaining funds in the Receiver's accounts will be transferred to the Province of Manitoba as soon as possible.

A summary of the Receiver's accounts for the fiscal years ended September 30, 1986, and 1985 are presented below as a matter of information:

	September 30 1986	1985
Receipts:		
Interest income	$ 25,823	$ 35,918
Disbursements:		
Funds due to Manfor Ltd.	154,077	-
Receiver's operating expenses	-	3,000
	154,077	3,000
Receipts (under) over disbursements	(128,254)	32,918
Funds on hand, beginning of year	404,976	372,058
Funds on hand, end of year	$ 276,722	$ 404,976
Cash in bank and term deposits	$ 48,087	$ 176,341
Funds on deposit with Minister of Finance	228,635	228,635
Funds on hand, end of year	$ 276,722	$ 404,976

AGENCY OPERATIONS

Manitoba Health Services Commission

For several years we have recommended that the Commission implement an internal audit function in the teaching hospitals because this function is recognized as an effective management aid. Last year, we reported that one of the teaching hospitals had not yet instituted the internal audit function. That hospital has now hired an internal auditor.

Manitoba Lotteries Foundation

Last year we reported that the Foundation was proceeding with a review of its organization structure and its administrative policies and procedures. This review was undertaken to identify ways to strengthen controls and processes to address concerns identified by management, staff and the audit process.

The Foundation continued to resolve a number of administrative and control problems during the year ended March 31, 1987. The Foundation also has implemented an appropriate action plan to resolve the remaining issues and to monitor effectively its operations on an ongoing basis.

Manitoba Public Insurance Corporation (MPIC)

At the request of the Minister of Finance, we carried out 2 special audits of MPIC.

In 1987, as a result of concerns expressed by the Minister responsible for the Manitoba Public Insurance Corporation, we were requested by the Minister of Finance to undertake a special audit of the Corporation with respect to its reinsurance business. This special audit of the reinsurance operations indicated that management practices in this area were inappropriate for the preservation and protection of public assets. The special audit identified significant concerns and resulted in recommendations regarding the reinsurance management cycle. We are aware that MPIC officials and staff have been working to resolve these concerns. However, since only a few months have elapsed since our audit report was issued, we did not consider it practical to expect that our recommendations would already be fully implemented. Accordingly, we have not followed up on the actions taken in response to our recommendations at this time.

In 1986, we carried out a special audit to address allegations pertaining to the Corporation's disposal of vehicles, personnel practices, executive expense accounts and the purchase of crystal and china. As a result of this special audit we made a number of recommendations to improve management practices. During our recent overview audit, we followed up on actions taken in response to these recommendations. Appropriate action has been taken to resolve most of our concerns. Only two remained unresolved at the conclusion of our overview audit.

The unresolved concerns included the need for a policy to control refunds on auction sales of vehicles and the need for a personnel official to participate in the hiring and promotion process.

Because of the nature of auction sale transactions, there is a risk of abuse if an appropriate policy and guidelines are not put in place to control the circumstances under which refunds may be made. An appropriate policy should also include a requirement for executive review of refunds paid. We again recommended that the Corporation adopt a policy on this matter as soon as practicable A policy has recently been drafted and approved by the Board.

AGENCY OPERATIONS

It is a standard practice in Government to have a personnel official on hiring or promotion boards for all staff. While MPIC has adopted this practice for out-of-scope staff, it has not done so for in-scope staff. Having a personnel official on hiring boards is a useful way to encourage the merit principle in hiring. A practical way for MPIC to implement this process may be for the Corporation to distinguish between competitions involving the promotion of internal MPIC candidates and competitions involving persons external to the Corporation and to have an appropriate approach for each type of competition.

Many competitions for in-scope positions involve internal promotions. It may serve the intended purpose and be practical to have a personnel officer review the results of these competitions. We recommended that consideration be given to broadening the mandate of the personnel department to include a review of the procedures followed in such competitions for the appropriateness of documentation supporting the decision and supporting adherence to the merit principle. The personnel department could develop reports based on these reviews and forward them to the Executive Committee together with any recommendations they may have for improving procedures.

For competitions involving persons external to the Corporation, we recommend that a personnel official participate on the hiring board. We are aware that other Crown agencies use a variety of methods to involve the personnel department in theselection process. When developing its policy, MPIC may also wish to consider these methods.

Management has indicated that this appears to be a practical approach and will consider our recommendations further.

Our regular overview audit disclosed practices and benefits to employees which we considered inappropriate. The Board acted to resolve most of our concerns in this area. Only three such issues remained unresolved at the conclusion of our overview audit. Further details regarding these are provided in the following three paragraphs.

Senior executives at MPIC have had cash advances for several years. They have been entitled to hold them indefinitely without business justification. The Corporation is now planning to reduce advances by 50-60% and the business purpose of these will be assessed.

In 1986, MPIC increased the funding of its staff Christmas parties by 40% . Funding for this type of a party, which is provided by all insured citizens in the Province, should be carefully assessed for its contribution to MPIC business and for reasonableness in relation to the practices in other Crown agencies and the Government. The Corporation has recently made a decision to cancel funding for the adult Christmas parties.

MPIC's policy of honouring retiring employees with more than 5 years service is considerably more generous than what we consider appropriate for a publicly funded operation. The policy provides for the funding of a luncheon and host bar with up to 11 designated guests for each employee being honoured. There is no stipulated maximum funding. The policy also allows the Corporation to fund a gift for the employee up to $1 per month of service. This policy is significantly out of step with the Provincial practice which honours retiring employees with 15 or more years of service, pays the cost of a framed certificate and pays up

to $60 towards the cost of a recognition event, for the employee and two guests.

Although, the dollars involved are not large, we do not believe the public should be expected to contribute to inappropriate benefits for individuals in public service. This is especially true at a time when the Government is facing a stringent fiscal climate and the need to promote a corporate culture of firm management with scarce resources.

We recommend that the Government consider broader application of its existing guidelines. This will ensure the prudent use of public resources on a consistent basis while still providing the flexibility necessary to allow the Crown agencies to function effectively.

MTX Telecom Services Inc.

Last year we reported that the Government had engaged a firm of consultants to conduct a management audit of the operations of MTX Telecom Services Inc. (MTX), the wholly owned subsidiary of the Manitoba Telephone System. The main purpose of the engagement was to review and assess MTX operations and management with a view to evaluating their viability and adequacy. We also reported that the Royal Canadian Mounted Police (R.C.M.P.) had been requested to review certain allegations of unlawful business practices related to MTX. These reviews have been completed.

The management audit released in November 1986 assisted in the Government's decision to wind-down the operations of MTX. Accordingly, a provision was established to cover the costs of discontinuance and losses incurred subsequent to March 31, 1986. Most of the assets of MTX were written off, and an extraordinary loss was recorded in MTX's audited financial statements for the year ended March 31, 1986 in the amount of $27.1 million. An extraordinary loss of $27.1 million was charged against the Manitoba Telephone System's retained earnings, as at March 31, 1986, for the write off of its investment in MTX. This was in addition to MTX's operating loss for the year of $287,000.

The wind-down has been proceeding in an orderly manner and effective financial reporting has been established. Signed agreements have been concluded on two of the three major projects. These settlements are with the Saudi Arabian operations and with the Cezar project. The wind-down of the third major project, U.S. Sprint, is still not complete. In addition, a number of smaller issues still remain to be resolved. Officials are continuing to work towards the resolution of the remaining issues as quickly as possible.

As a result of new management's efforts to institute effective financial reporting of MTX's operating results, we became aware that significant staff costs had not been allocated to MTX prior to April 1, 1986. Prior to April 1986 staff salaries for retail marketing and administrative employees seconded to MTX for MTX operations were absorbed by the System. This was contrary to information provided by previous MTX management to the staff of the Provincial Auditor's Office and the MTX external auditors. This inappropriate practice resulted in a historical unreported cross-subsidization of the operations. The amount of work necessary to determine the extent of the cross-subsidization that had occurred from the date of inception to April 1, 1986 is significant. Given the magnitude of the task, particularly in light of the decision to wind down MTX, it is not considered practical for either the current management or our staff to pursue the precise historical effect. A

partial review by current management estimated the salary costs absorbed by the System at $35,000 a month. This would indicate a cumulative historical cross-subsidization in the range of $.5 million to $1.2 million, depending on the changing levels of staff assistance, salary rates, etc. over the years. However, while the unallocated salary costs would not have been significant in relation to the operations of the System, they would have significantly impacted on the operating losses of MTX, and could possibly have brought to light the questionable viability of MTX's operations sooner. A change was made to charge MTX's operations for the salaries of marketing and administrative staff after April 1, 1986. The MTX financial statements provided by new management fully reflect all appropriate staff costs for the year ended March 31, 1987.

In order to assist members of the Legislative Assembly in achieving a more complete understanding of the overall implications of the MTX wind-down and the effects of MTX's losses, we are presenting additional information in this report concerning the cumulative historical cost of MTX and the on-going financing of its losses.

The management audit of MTX was commissioned by the Government through the Department of Crown Investments. The Department of Crown Investments paid $.7 million for the costs of the audit, including the consultants' assistance at meetings of the Standing Committee on Public Utilities and Natural Resources. These costs are to be recovered from the Manitoba Telephone System and the System has reflected these costs in its operations. It is an appropriate accounting treatment to have the parent record such costs, given that a decision has been taken to wind-down MTX and that MTX was written off in the System's financial statements for the year ended March 31, 1986.

The Manitoba Telephone System wrote-off its investment in MTX effective March 31, 1986, and discontinued allocating financing costs to the MTX operations. It was recognized that the System would have to carry these costs as a direct cost of its own operations. A calculation was prepared by management showing that the total annual imputed interest cost associated with financing MTX's losses is about $2.4 million. This information was provided to the Legislative Assembly and the Public Utilities Board. As with any significant loss on operations these interest costs can be thought of as costs which go on indefinitely into the future. It is for this reason that the risks associated with new ventures must be clearly understood before they are proceeded with.

The System's financial statements include a note that contingencies or claims may arise as MTX proceeds with the wind-down of its operations. The note further states that the value and magnitude of such contingencies, if any, is not determinable at this time. While these contingencies are currently within the amount originally provided for, it is possible that the amounts may be inadequate, or that new claims may arise, which would have an impact on the adequacy of the provision for loss. The final costs of MTX can therefore not be determined with accuracy until after the final dissolution.

The R.C.M.P. investigation into the allegations of unlawful business practices established that ten secret commission payments were made in the Saudi Arabian operations during the period March 1983 to September 1985, with a total amount of $95,168.85 being expended. The R.C.M.P. report indicated that the payment of secret commissions occurred in Saudi Arabia

and, therefore, this matter had to be investigated under the context of conspiracy to commit an indictable offence in a foreign country in order to be tried in a Canadian court. However, since no proof was found to support criminal charges, the R.C.M.P. recommended that the matter not be further pursued. The Government accepted this recommendation.

Universities Grants Commission

In our report last year, we indicated concern that the University of Manitoba was subsidizing the operations of other post-secondary educational institutions through the provision of computer services below cost. These computer services are provided by the University of Manitoba to those other institutions through a computer services network on the basis of an agreement between the parties. The University also provides computer services to the Department of Education at the same rates provided in the computer services network agreement. There are, however, conflicting views among the participants in the network agreement and the Universities Grants Commission as to whether there is, in fact, any subsidization of other educational institutions by the University of Manitoba. In any case, the network agreement is no longer serving the intended purpose and requires review. We recommend that the review include consideration of the issue of possible cross-subsidization.

During the past year, the University of Manitoba advised the Commission that it intended to withdraw from the computer services network effective March 31, 1988 if new arrangements could not be agreed upon. Officials of the Commission are meeting with representatives from these institutions to negotiate new arrangements for the provision of computer services. They have indicated that they hope to have a new network agreement in place for the fiscal year ended March 31, 1989.

University of Winnipeg

Last year, we reported concerns that the University did not have appropriate procedures in place for accountability and protection of its fixed assets. In our view, in the absence of these procedures, the University had been taking undue risk that assets may be lost through fire or otherwise, with the potential that expenditure of public funds could be required for their replacement.

We have been working with senior officials of the University, primarily to assist them in the determination of appropriate steps which could be taken to improve accountability for these assets and also to minimize loss in the event of a major disaster. During the year ended March 31, 1987, University officials developed an appropriate action plan to address these concerns. This plan includes the development and implementation of a computerized equipment inventory system, the development of an accountability system for the managers responsible for this equipment and the development of a policy and procedure manual to cover this aspect of the University's operations. The action plan calls for full implementation of the system during the year ending March 31, 1988. The progress to date has been satisfactory.

Workers Compensation Board

For several years we have reported that the operations of the Workers Compensation Board are not in compliance with The Workers Compensation Act. Section 66(1) of the Act requires the Board to assess and collect from employers in each Class Fund sufficient funds to meet all

amounts payable from that Fund during the year. The Board has five Class Funds. Four of these represent employers who are self-assurers and maintain surplus balances with the Board. These employers are Canadian Pacific Railway Company, Canadian National Railway Company, Province of Manitoba and City of Winnipeg. These Funds had surplus balances amounting to $1.2 million as at December 31, 1986.

The other Class Fund, known as Class G Fund, represents the general body of employers that are assessed under the Act. This Fund has recorded annual deficits on the year's operations since 1981 and has been in an accumulated deficit position since 1984. The accumulated deficit as at December 31, 1986 was $84.3 million.

For the year ended December 31, 1986, the Class G Fund recorded a deficit of $57.3 million on the year's operations, including adjustments of $44.1 million. These adjustments, based on an actuarial review as at December 31, 1986, were required to increase three reserves forming part of the Class G Fund. These adjustments increased the reserves for Future Costs of Existing Claims ($37.8 million), Second Injury Fund ($6.2 million) and Equalization Fund ($.1 million). The adjustment to the reserve for Future Costs of Existing Claims pertains to future costs of existing claims under the vocational rehabilitation program.

Since the Board is not required under the Act to continue the vocational rehabilitation program, it did not previously provide for future costs of existing claims under this program. As a result, the Board did not set up an amount when the previous actuarial review was done as at December 31, 1983. The Board's attest auditors were of the opinion, however, that the financial statements for December 31, 1986 should include this actuarial liability to reflect the Board's practice of making payments under this program. We concur. The Board's financial statements must reflect the Board's activities. The attest auditors also recommended that the Board's reserves be subjected to an annual actuarial valuation. We also consider an annual actuarial valuation advisable.

The Board has improved its presentation of the results of Class Fund operations in its financial statements. Prior to December 31, 1986, the Board reflected the combined balance for all Class Funds as one figure on the Balance Sheet. However, to more appropriately reflect funds held on deposit by the Board for self-assurer employers, the Board revised this presentation. The Balance Sheet presentation as at December 31, 1986 now shows the Self-Assurer Funds surplus balances and the Class G Employers' Funds deficit balance as separate figures.

We also previously reported that for the last five years the Board has identified and recommended significant increases in the assessment rates to fund the Board's operations. To date, however, the Government has not approved appropriate increases in assessment rates.

We believe that the failure to charge adequate assessment rates will result in interperiod inequity. It will place an unfair burden on employers or the general public in future years. This is contrary to existing legislation and has created a serious problem that should be resolved in a timely manner.

In September 1985, the Government appointed a Legislative Review Committee to review the workers compensation system in Manitoba. The Committee issued its report in June 1987. The Minister responsible for the operations of the Board has stated that the Government

would take from three to six months to study the report. We recommend that action be taken as soon as practicable to bring the activities of the Board into compliance with Legislation and to adopt a sound fiscal policy for funding the Board's operations.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

General Comments

The scope of our Office's audit and reporting procedures, as set out in Exhibit 1 of this report, is consistent with that of the preceding year. The audits and reports thereon are current.

In addition to the audit of the Government of the Province of Manitoba, we audited 58 Government agencies. Their financial statements are either reported on, or in process of being reported on, by our Office. The 58 agencies are listed in Exhibit 2 of this report. This total represents one more audit than for the preceding year. Two agencies included on last year's list have been deleted. The Manitoba Arc Authority has become inactive. The Limestone Training and Employment Agency (LTEA) was not required to issue separate financial statements. The LTEA does not have its own funds, but carries out its operations through departmental expenditures from the Consolidated Fund. The operations of LTEA are reviewed as part of our regular audit of the Consolidated Fund. The LTEA was incorporated in July 1987 and will shortly be appointing auditors.

The Office also undertook three new audits. These are the Habitat Heritage Corporation, the University of Manitoba Research Ltd. and the Workplace Innovation Centre.

The Office also carried out overview audits of the 14 Government agencies listed in Exhibit 3 of this report. The attest audits of these agencies were done by private-sector audit firms. This is six less overviews than our Office conducted in the previous year. We periodically review the operations of 5 Conservation Districts during our audit of the Department of Natural Resources' operations. We carry out overviews of the 5 Conservation Districts on a cyclical basis rather than an annual basis. We also decided to conduct the overview audit of the Rehabilitation Centre for Children Inc. on a cyclical basis and, as a result, did not conduct an overview audit of the Centre for the year ended March 31, 1987. We believe this to be a more effective use of audit resources.

The Minister of Finance requested the Provincial Auditor to undertake one special audit between the issuance of our previous report to the Legislative Assembly and March 31, 1987. Our special audit report on the Manitoba Public Insurance Corporation - Reinsurance Operations was tabled in the Legislative Assembly on June 19, 1987. The report was also discussed at Committee meetings. Accordingly, only a very brief summary of the concerns and recommendations related to this special audit is included below.

Our special audit disclosed that the Corporation neither developed an appropriate business case in support of its reinsurance operations nor did it have well defined policies and procedures regarding these operations. Expected prudent management practices and procedures were lacking. Consequently, significant reinsurance losses were not identified on a timely basis. The methodology used to develop reserves was not appropriate and reliance cannot be placed on the provision calculated. There were deficiencies in documentation practices, especially regarding ministerial and Board involvement, but also at the executive management and operating management levels.

The special audit also identified deficiencies in the Provincial Archives, Records Centre's facilities, equipment, staffing levels, procedures and controls which contributed to the apparent accidental destruction of ministerial records.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Management of MPIC and the Provincial Archives are taking action to address the concerns raised.

Organization

The Office of the Provincial Auditor is organized as shown in the Organization Chart, Exhibit 4 of this report. The organizational structure has not changed significantly from the preceding year.

Staffing

Our staff complement as at March 31, 1987 was 59 positions. This is the same as indicated in our previous report. These 59 positions consisted of 5 senior managers (management committee); 4 audit manager specialists (2 in computer auditing and 2 in professional practices including operational audit); 11 audit managers; 35 auditors, technical staff and accounting students (4 of whom are specializing in the use of micro and mainframe computer technology to increase the efficiency and effectiveness of the auditing process); and 4 administrative and secretarial staff. We had 22 Chartered Accountants, 8 Certified Management Accountants and 6 Certified General Accountants on staff as at March 31, 1987. The actual staff person years utilized for the fiscal year ended March 31,1987 were 56.50 (1986 - 55.02).

We continue to be successful in recruiting staff promptly to fill vacant positions. Term staff are used to assist the Office in meeting its objectives in periods of peak workload demands. As at March 31, 1987, there were 52 permanent staff and 2 term staff working for our Office. The vacancies existing at March 31, 1987 were filled by the end of April.

We continued to contract for the services of a partner from an international audit firm. This partner is a recognized computer auditing expert and assists us to maintain high standards of professional practice in this increasingly complex area of auditing.

Staff Training

We have continued to base our staff training and development program over the past year on a combination of on-the-job training, formal training courses and participation in conferences sponsored by various professional organizations. Consistent with the practice followed in previous years, we deliver most of our formal training courses in-house, using our own staff, thereby minimizing our costs and conforming with the financial constraints placed on all government departments. We also participate in relevant courses provided by the Civil Service Commission.

In accordance with Government policy, we provide educational assistance to staff members who are registered students in recognized professional accounting association programs. We also participate in the formal instructional courses provided by these organizations. Educational assistance is also provided to several staff members who are continuing to expand their level of education by attending certain specialized courses.

Memberships are maintained by various staff members in various professional accounting associations such as the Institute of Chartered Accountants, the Society of Management Accountants and the Certified General Accountants Association. This enables staff to keep abreast of new

developments and technology in our profession. These memberships are paid personally by our staff members. In addition, memberships are maintained in such associations as the Canadian Institute of Public Administration, the Institute of Internal Auditors, the E.D.P. Auditors Association, the Canadian Comprehensive Auditing Foundation and other relevant organizations. Educational conferences are sponsored by these organizations and certain staff members participate in a selected number of these conferences.

We continue to participate in the Legislative Auditors' Practices Committee which is comprised of members of the Legislative Auditors' Offices across Canada. This Committee exchanges valuable information on staff training trends and experiences. It also provides the benefits of sharing ideas, methods and procedures in performing audits in the public sector.

Our staff development program has recently focused on developing the managerial skills of our auditors. This coincided with the introduction and issuance of the Management Practices Guide by the Government. The Guide sets the direction and serves as a policy reference document for all levels of management. Our staff attended a seminar provided by the Financial and Management Systems Branch of the Department of Finance, which outlined the management concept of management by objectives and results. This seminar served to familiarize our audit staff with this management concept. This will help our staff relate to and provide service to government managers as they work towards its implementation. To reinforce our understanding of this management concept in the public sector, several audit managers provided an in-house seminar based on a book by a noted author on this concept.

We also continued to place a high priority on our training in computer audit programs. We have acquired a second desktop microcomputer and four transportable microcomputers. These are utilized to enhance our audit process. With the acquisition of the microcomputers we have also acquired software packages to assist staff. Consistent with the continuation of staff development in this area we have continued to engage a computer specialist on a contract basis. The specialist presented two seminars dealing with the revised computer control guidelines, microcomputer security and audit applications for microcomputers. In our continuing efforts to provide leadership to the auditing, financial and program managers in Government and Crown agencies, we invited individuals from these groups to attend these seminars. Both seminars were well attended by department and Crown agency officials. In addition, the specialist provided advice and assistance in the acquisition of microcomputers to expand our utilization and enhance our audit efficiency.

We previously reported a continuing expansion in our computer training and staff development program. To provide for this increased emphasis, this responsibility was assigned to the Director of Special Audits and Professional Development during the past year. Our Office has recently given increased priority to professional practices and quality control. The Director of Professional Practices will focus on this area in the coming year.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1987 as compared with the estimate, and with the actual revenue and expenditure of the preceding year, are as follows (*in thousands of dollars*):

Comparison of Actual Revenue and Expenditure to Estimate

	Actual 1987	Estimate 1987	Variance
Revenue	$ 770	$ 711	$ 59
Expenditure:			
Salary	2,211	2,266	55
Other	114	121	7
	2,325	2,387	62
Total	$ 1,555	$ 1,676	$ 121

Comparison of Actual Revenue and Expenditure to the Preceding Year

	Actual		
	1987	1986	Increase
Revenue	$ 770	$ 680	$ 90
Expenditure:			
Salary	2,211	2,133	78
Other	114	102	12
	2,325	2,235	90
Net expenditure	$ 1,555	$ 1,555	$ -

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Variance explanations:

Revenue

The increase in actual over estimated revenue and between current year revenue and prior year revenue results from a combination of the prior year change in the year-end of a major auditee, together with a small increase in our billing rate. The prior year change in the year-end of a major auditee resulted in the deferral of the related audit work and the billing thereof into the year ended March 31, 1987.

Expenditure

The variance between estimate and actual expenditure is accounted for by staff turnover.

In our continuing efforts to reduce or maintain our budget at a constant level in times of raising costs, we have carefully analyzed each of our costs. This year, we determined that we could reduce printing costs through use of improved technology. We undertook to produce this report without the use of an outside printing firm. With the assistance of the Queen's Printer to produce the covers, to print and to bind the report, we have produced what we believe is a reasonable print product at a saving of approximately $3,000 (60%) compared to the prior year.

Audit of the Accounts of the Provincial Auditor's Office

A professional accountant from the Comptroller's Division, Department of Finance carried out an audit of the accounts of the Office of the Provincial Auditor for the year ended March 31, 1987 in accordance with section 19 of The Provincial Auditor's Act. A copy of the audit report, which was issued to the Minister of Finance, is included as Exhibit 5 in this report.

Meeting of Legislative Auditors

The Canadian Conference of Legislative Auditors is an informal association of the legislative auditors of Canada and the Provinces. This group held its fifteenth annual meeting in Quebec City, Quebec, July 6-8, 1987. These meetings, which we attend, serve as an excellent forum for the exchange of information on matters of mutual interest, and the discussion of technical information important to the work of our Offices.

The 1988 Canadian Conference of Legislative Auditors is being arranged by the Auditor General of Nova Scotia and it will be held in Halifax, Nova Scotia.

ACKNOWLEDGEMENTS

My staff and I are pleased to express our appreciation for the cooperation and assistance extended to us during our audits by elected and appointed officials and staff of departments, Crown agencies and grantees.

We would also like to thank the members of the Legislative Assembly for their understanding, support and assistance.

Also, I wish to thank the staff of my Office for their efforts in meeting new challenges and for their support during the past year.

F. H. Jackson, CA,
Provincial Auditor.

November 25, 1987,
Winnipeg, Manitoba.

Exhibit 1

SCOPE OF AUDIT AND REPORTING PROCEDURES

General Comments

In accordance with The Provincial Auditor's Act, the Office of the Provincial Auditor is required to carry out various kinds of audits, and a monitoring of accountability to the Legislature concerning the Government, its agencies and recipients of public moneys. The Office carries out financial, compliance with authority and broader scope administrative audits of the Government and the agencies listed in Exhibit 2; broader scope administrative and compliance with authority overview audits of the government agencies listed in Exhibit 3, whose financial audits are carried out by private-sector audit firms; inspection audits of selected recipients of public moneys and; special audits as considered appropriate and as requested, provided they do not interfere with our primary responsibilities. Further particulars regarding these activities and their reporting procedures are outlined in the following sections.

Role and Mission

Our Office carries out one program which consists of several ongoing interrelated activities which are set out above in the General Comments.

The objectives of these activities are enunciated in our Office's role and mission statement, and include:

Attest Audits

- independent, objective reporting to the Legislature and the Government through the expression of professional opinions on the annual financial statements of the Government and those Crown agencies where we have been appointed the auditor and to the public on prospectuses.

Compliance with Authority Audits

- independent, objective reporting to the Legislature and Government that there is authority for expenditures from the Consolidated Fund.

- independent, objective reporting to the Legislature and Government of significant instances observed during the audits of Government departments and Crown agencies regarding non-compliance with applicable authorities.

Broader Scope Audits

- independent, objective reporting to the Legislature and Government of significant matters observed during our audits of the appropriateness and effectiveness of administrative, financial and accountability systems and organizational relationships and arrangements within Government, Crown agencies and recipients of public funds.

This report is one of the main products of these activities.

Audits of the Provincial Government and its Agencies Entirely Audited by the Provincial Auditor

The Office performs audits of the Government of the Province of Manitoba and the Crown agencies listed in Exhibit 2, using a systems based audit approach under the direction of professional staff. These audits consist of the following four components:

1. An audit is done for the purpose of expressing an opinion on the fairness of the presentation in the financial statements developed by Government or Crown agency officials. The examination is made in accordance with generally accepted

SCOPE OF AUDIT AND REPORTING PROCEDURES

auditing standards. It includes a general review and evaluation of the accounting procedures and internal financial controls, together with such tests of key financial controls, accounting records, and supporting evidence as are considered necessary in the circumstances.

2. An audit of payments from the Consolidated Fund is done on an on-line basis as departmental requests for payment are presented to the central system for processing. This audit is fully co-ordinated with the systems based audit of departments and meets the pre-audit requirements of sections 10 and 11 of The Provincial Auditor's Act. The on-line audit process also provides early detection of weaknesses or problems so that prompt corrective action can be taken. This process also enables my Office to audit special and unusual payments on a timely basis. The audit of payments from the Consolidated Fund consists of:

   a) an examination of all requests for payment for legislative authority and approval by designated officials. A review of all significant requests for payment and testing of other documents is also undertaken to satisfy ourselves that they are being handled in a business-like manner to protect the Province's interests. Requests for payment not meeting the above requirements would be refused. Where legislative authority for payment is lacking, payments cannot be made. Payment requests refused for other reasons can only be made by the special authority of the Minister of Finance. Audit observations arising from this audit process are normally attended to in a satisfactory manner so as to preclude any need for refusal. However, should there be a refusal which requires the special authority of the Minister of Finance, the particulars would be fully reported to the Legislature in this report. There was no need for such refusals in the past year.

   b) test checking of requests for payments for completeness of supporting documentation, accuracy of arithmetical calculations, compliance with government directives, etc. to satisfy ourselves that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters requiring further attention are referred to the appropriate staff in my Office for further consideration in the evaluation of the departmental systems, and in the development of audit recommendations for improvement. If the testing and evaluation of departmental systems reveals a breakdown, and it is concluded that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, further requests for payment would be refused. In such an instance, in accordance with The Provincial Auditor's Act, payments could only then be made on the special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and there was need for refusal of payment requests,

SCOPE OF AUDIT AND REPORTING PROCEDURES

the matter would be fully reported to the Legislature in my report. There was no need for such refusals in the past year.

3. An examination of the administrative practices and the related key internal controls is undertaken to ascertain that the entity is organized and operating in a business-like manner with due regard for economy, efficiency and effectiveness. This examination is carried out within the capabilities of professional accountants with specialized training and experience. The examination includes a review of:

   - the entity's objectives and organizational structure;
   - its budgeting and monitoring systems in place for comparing actual results with budget and determining variance explanations;
   - its internal audit system and other performance monitoring systems;
   - its purchasing and personnel procedures and,
   - its adherence to government guidelines.

4. An audit is done to determine that the entity is complying with legislative authorities.

5. A more in-depth investigation may be undertaken of specific concerns raised or observed during the above-mentioned examinations or noted from other sources. Such other sources may be:

   - the Legislature or any of its committees;
   - the Lieutenant Governor in Council or the Minister of Finance, provided this does not interfere with our primary responsibilities;
   - the news media and,
   - elected members, public servants and the general public. The sources of this information are held strictly confidential.

Overview Audits of Crown Agencies Whose Financial Statements Were Audited and Reported on by the Private-Sector Audit Firms

Overview audits are carried out by this Office for those Crown agencies listed in Exhibit 3. These are agencies for which audit firms were appointed to carry out audits for reporting on their financial statements. The audits conducted by the audit firms are of a kind as described in the preceding component 1. Our overview audits consist of a review of the audited financial statements, management reports of the audit firms, and matters of a broader scope nature as described in the preceding components 3, 4 and 5.

Inspection Audits of Recipients of Public Funds

Inspection audits of recipients of public funds are conducted under the authority of section 17(4) of The Provincial Auditor's Act. These audits consist of visits to a limited number of grantees. The audit procedures are similar to those of the management overview audits described in the preceding section. A review of a much larger number of grantees for accountability is carried out during the audits of the Government departments and Crown agencies. These review procedures mainly consist of an evaluation of the

SCOPE OF AUDIT AND REPORTING PROCEDURES

adequacy of the grantor's monitoring systems and the findings of these systems. We assess the findings and determine that appropriate corrective action has been taken.

Involvement in Prospectuses

The Government of the Province of Manitoba raises funds in financial markets to meet a portion of its requirements. The funds raised are used to:

- finance general Government programs
- provide advances to Crown corporations and agencies for capital projects
- replace maturing debt.

Although certain jurisdictions have varying requirements, most require input from our Office regarding information included in the prospectus document. Accordingly, we review the financial information included in the prospectus relating to such financing arrangements.

Over the past several years, the Government has approached the financial markets frequently to raise its cash requirements. The magnitude of such total borrowings has also generally been increasing. Accordingly, considerable work is required in satisfying ourselves regarding the reasonableness of the information included in the various prospectus documents.

Reporting Procedures

Reporting on financial statements

Reports are issued on the fairness of the presentation of information in the financial statements of the Government of the Province of Manitoba, and of the Crown agencies listed in Exhibit 2.

Internal reporting

During our audits, observed instances of non-compliance with legislation, weaknesses in internal control, ineffective supervision, records not being up-to-date and any other deficiencies or irregularities are brought to the attention of the officials concerned for appropriate action. Matters which warrant the attention of ministers and chairpersons of the boards of Crown agencies are directed to them and to the Minister of Finance in written reports in accordance with the requirements of subsection (3) of section 12 of The Provincial Auditor's Act. During subsequent visits, these matters are followed-up to ascertain whether appropriate action has been taken to resolve the problems.

Report to the Legislative Assembly

Significant matters, which have been reported to ministers and chairpersons of the boards of Crown agencies which have not been resolved within a reasonable period of time, are included in my annual report to the Legislative Assembly. A number of significant matters which have been resolved are also included in this report. These matters are of a kind which in the Provincial Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly, or a committee of the Assembly, or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

Section 13(4) of The Provincial Auditor's Act also provides that a special report may be made to the Assembly. In determining whether we should develop a special report, an evaluation of the criticality of the issue is required. If we conclude that a matter is of pressing importance or urgency that requires special attention

SCOPE OF AUDIT AND REPORTING PROCEDURES

and action by the Assembly, a special report will be made. During the fiscal year ended March 31, 1987 there were no matters which required special reporting.

Exhibit 2

SCHEDULE OF CROWN AGENCIES WHOSE FINANCIAL STATEMENTS WERE AUDITED AND REPORTED ON BY THE PROVINCIAL AUDITOR'S OFFICE

Name of Organization	Fiscal Year Ended
Alcoholism Foundation of Manitoba	March 31, 1987
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1986
Brandon University	March 31, 1987
Brandon University Retirement Plan	December 31, 1986
Centre Culturel Franco-Manitobain	March 31, 1987
Channel Area Loggers Ltd.	March 31, 1987
Civil Service Superannuation Fund	December 31, 1986
Communities Economic Development Fund	March 31, 1987
Co-operative Loans and Loans Guarantee Board	March 31, 1987
Co-operative Promotion Board	March 31, 1987
Criminal Injuries Compensation Board	March 31, 1987
Deer Lodge Centre Inc.	March 31, 1987
Department of Municipal Affairs - Minister's Trust Account	March 31, 1987
Habitat Heritage Corporation	March 31, 1987
Horse Racing Commission	March 31, 1987
Leaf Rapids Town Properties Ltd.	March 31, 1987
Legal Aid Services Society of Manitoba	March 31, 1987
Liquor Control Commission	March 31, 1987
Manfor Ltd.	December 31, 1986
Manitoba Agricultural Credit Corporation	March 31, 1987
Manitoba Arts Council	March 31, 1987
Manitoba Beef Commission	March 31, 1987
Manitoba Centennial Centre Corporation	March 31, 1987
Manitoba Crop Insurance Corporation	March 31, 1987
Manitoba Data Services Commission	March 31, 1987
Manitoba Development Corporation	March 31, 1987
Manitoba Health Research Council	March 31, 1987
Manitoba Health Services Commission	March 31, 1987
Manitoba Hospital Capital Financing Authority	March 31, 1987
Manitoba Housing and Renewal Corporation	March 31, 1987
Manitoba Intercultural Council	March 31, 1987
Manitoba Lotteries Foundation	March 31, 1987
Manitoba Mental Health Research Foundation	March 31, 1987
Manitoba Milk Prices Review Commission	March 31, 1987
Manitoba Mineral Resources Ltd.	December 31, 1986
Manitoba Research Council	March 31, 1987
Manitoba Text Book Bureau	March 31, 1987

Exhibit 2

SCHEDULE OF CROWN AGENCIES WHOSE FINANCIAL STATEMENTS WERE AUDITED AND REPORTED ON BY THE PROVINCIAL AUDITOR'S OFFICE

Name of Organization	Fiscal Year Ended
Manitoba Trading Corporation	March 31, 1987
Manitoba Vegetable Producers' Marketing Board	June 30, 1986
Manitoba Water Services Board	March 31, 1987
Moose Lake Loggers Ltd.	March 31, 1987
Municipal Employee Benefits Fund	December 31, 1986
Northern Affairs Fund	March 31, 1987
Peak of the Market Sales Ltd.	June 30, 1986
Public Schools Finance Board	December 31, 1986
Public Service Group Insurance Fund	April 30, 1986
Public Trustee of Manitoba	March 31, 1987
Superannuation Resource Investment Corporation of Manitoba Inc.	December 31, 1986
Teachers' Retirement Allowances Fund	December 31, 1986
Teachers' Retirement Resources Investment Corporation of Manitoba Inc.	December 31, 1986
Universities Grants Commission	March 31, 1987
University of Manitoba	March 31, 1987
University of Manitoba Pension Plan (1970)	December 31. 1986
University of Manitoba Research Ltd.	March 31, 1987
University of Winnipeg	March 31, 1987
University of Winnipeg Pension Plan	December 31, 1986
Venture Manitoba Tours Ltd.	March 31, 1987
Workplace Innovation Centre	March 31, 1987

In addition to the foregoing, there are other government agencies which do not have their own funds but carry out their operations through the Consolidated Fund. The operations of these agencies are audited as part of our regular audit of the Consolidated Fund.

Exhibit 3

SCHEDULE OF CROWN AGENCIES WHOSE FINANCIAL STATEMENTS WERE AUDITED AND REPORTED ON BY PRIVATE-SECTOR AUDIT FIRMS WITH AN OVERVIEW AUDIT BY THE PROVINCIAL AUDITOR'S OFFICE

Name of Organization	Fiscal Year Ended
A. E. McKenzie Co. Ltd. and Subsidiaries	October 31, 1986
Credit Union Stabilization Fund	December 31, 1986
Flyer Industries Limited	July 14, 1986
Fonds de Sécurité des Caisses Populaires	December 31, 1986
Manitoba Boxing and Wrestling Commission	March 31, 1987
Manitoba Energy Authority	March 31, 1987
Manitoba Hydro-Electric Board	March 31, 1987
Manitoba Oil and Gas Corporation	December 31, 1986
Manitoba Properties Inc.	January 31, 1987
Manitoba Properties Leasing Inc.	December 31, 1986
Manitoba Properties Management Inc.	December 31, 1986
Manitoba Public Insurance Corporation	October 31, 1986
Manitoba Telephone System	March 31, 1987
Workers Compensation Board	December 31, 1986

THE PROVINCIAL AUDITOR'S OFFICE
ORGANIZATION CHART

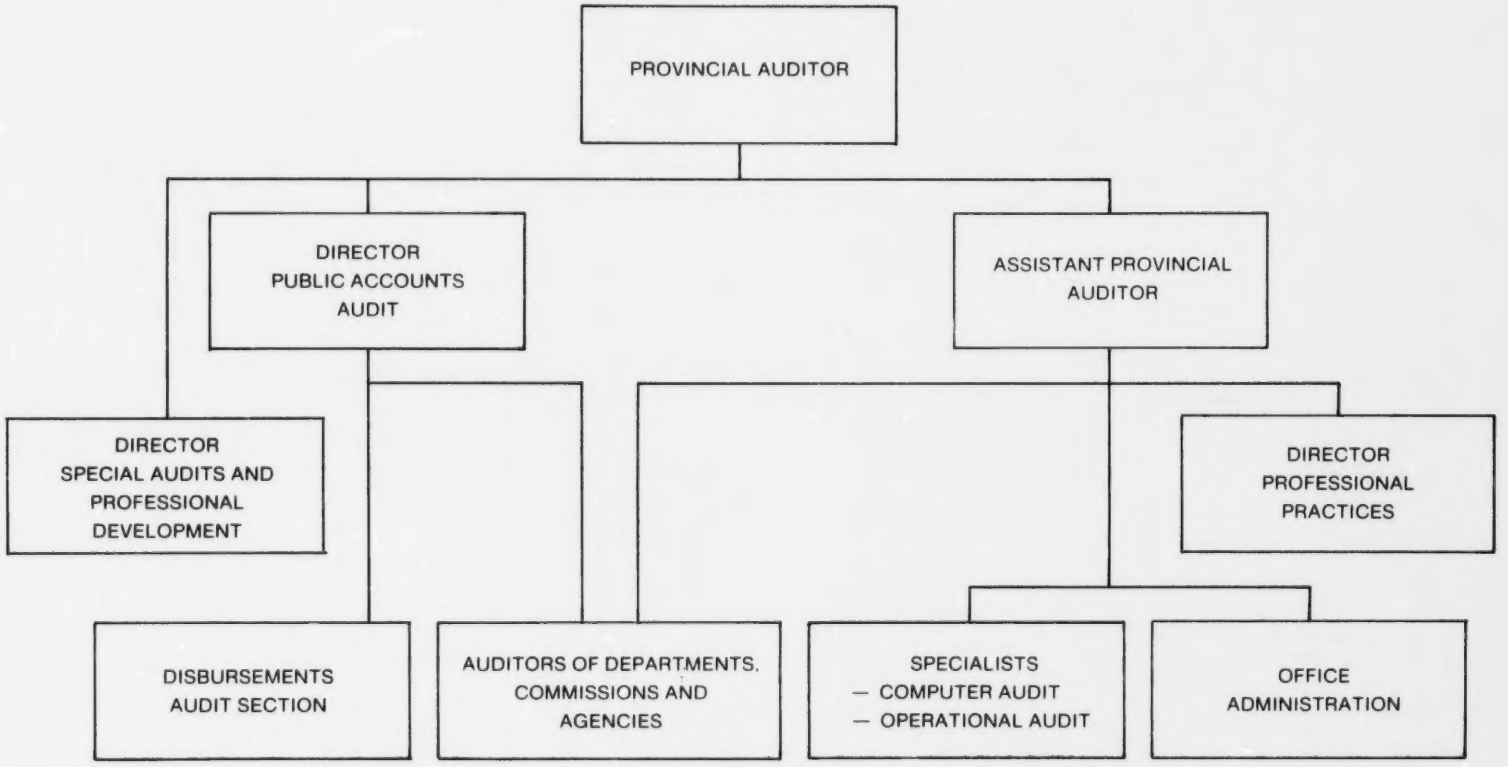


EXHIBIT IV

Exhibit 5

Manitoba

Finance Comptroller's Division

September 25, 1987

Honourable Eugene Kostyra
Minister of Finance
103 Legislative Building
Winnipeg, Manitoba

Dear Sir:

Section 19 of the Provincial Auditor's Act states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of The Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates."

My division now performs this audit on a regular basis. Under my direction, an auditor from Financial and Management Systems Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1987.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours truly,

E. Rosenhek
Comptroller

JN/wss

x.c. F.H. Jackson

Exhibit 6

REPORT OF THE PROVINCIAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE PROVINCE OF MANITOBA

I report that the Consolidated Fund financial statements included in the Public Accounts of Manitoba have been examined under my direction for the year ended March 31, 1987. The examination was made in accordance with generally accepted auditing standards and included such tests and other procedures as we considered necessary in the circumstances.

The statement of revenue and expenditure does not reflect the increase of $49.8 million (1986 - $69.9 million) in the valuation allowance and the accrued liability of $7.6 million to the Manitoba Development Corporation in the determination of the net budgetary requirement. The financial statements present these matters on a basis consistent with the Government's accounting policies. However, this presentation results in a fragmentation of operating results. As indicated in note 12 and in the application of the accounting policies, the Government is changing its accounting policy to fund losses recognized in the valuation allowance through an appropriation, commencing with the year ended March 31, 1989.

Loans and advances to Crown Corporations, Agencies, Boards and Commissions includes a loan of $11.0 million to Manitoba Properties Inc. Inclusion of this amount as a loan is inappropriate because this amount does not represent a claim against other parties. Servicing of this amount will be through future charges to a Government appropriation. As described in note 3, the nature of this transaction is the funding of operating capital expenditures. In that the Corporation provides services solely to the Government and receives operational direction from the Government, treating this Corporation as other than part of the Government is unrealistic. These expenditures would be more appropriately shown as expenditures in determining the net budgetary requirement.

The cumulative effect on the statement of revenue and expenditure of the matters raised in the preceding two paragraphs is an understatement by $68.4 million of the reported net budgetary requirement of $559 million. The comparative amount for 1986 of $528 million is understated by $75.2 million. The cumulative effect on the operating fund statement of financial position is an overstatement of the reported financial assets and an understatement of the reported excess of liabilities over financial assets by $11.0 million.

In our opinion, except for the matters noted in the preceding three paragraphs, these financial statements present fairly the financial position of the Government of the Province of Manitoba as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended. The financial statements are presented in accordance with the Government's stated accounting policies applied, except for the changes in the accounting policies explained in note IV to the financial statements, on a basis consistent with that of the preceding year.

F. H. Jackson, CA,
Provincial Auditor.

December 7, 1987,
Winnipeg, Manitoba.

Exhibit 7

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF RESPONSIBILITY

Responsibility for the integrity and objectivity of the financial statements rests with the Government. The financial statements are prepared under the direction of the Minister of Finance in accordance with the stated accounting policies of the Government. These summary financial statements include a statement of financial position, a statement of revenue and expenditure, a statement of changes in financial position, accounting policies and notes and schedules integral to the statements. Together, they present fairly, in all material respects the Government's financial condition at the fiscal period-end and results of operations for the year then ended. More detailed information regarding the Government's financial position and operating results can be found in other sections of this volume and in volume 2 of the Public Accounts.

In accordance with the Government's accounting policies, expenditures related to the acquisition or construction of physical assets are treated as part of the total expenditure for the fiscal year as reported on the Statement of Revenue and Expenditure. As a result, a substantial part of the Net Budgetary Requirement reported on that statement is required for this type of expenditure. The Net Operating Requirement of the Government, exclusive of Capital Related Expenditure, is presented on schedule 1 of these Summary Financial Statements.

On behalf of the Government

HONOURABLE EUGENE KOSTYRA
Minister of Finance

December, 1987

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF FINANCIAL POSITION – OPERATING FUND

AS AT MARCH 31, 1987
(with comparative figures for March 31, 1986)

Schedule No		($ millions) 1987	1986
	FINANCIAL ASSETS		
	Cash and Equivalents	$ 625	$ 552
2.	Revenue Receivable	137	138
3.	Loans and Advances		
	Crown Corporations, Agencies, Boards and Commissions	2,985	2,523
	Other Governments	10	11
	Others	84	86
4.	Long-Term Investments	158	286
	Valuation Allowance	(58)	(193)
	Total Financial Assets	$ 3,941	$ 3,403
	LIABILITIES		
	Amount owing to the Trust Fund	$ 570	$ 488
5.	Accounts Payable, Accrued Charges and Funds Subject to Call	368	294
6.	Borrowings (Note 1):		
	Bonds and Debentures	4,858	3,912
	Canada Pension Plan	1,223	1,172
	Government of Canada	123	155
	Treasury Bills	325	325
	Provision for Unrealized Foreign Currency Losses	278	209
	Total Liabilities	$ 7,745	$ 6,555
	EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE		
	Serial Debentures of School Divisions and Districts	$ 162	$ 176
	Securities Received from Sale of Land and Buildings (Notes 2 and 3)	182	182
	Excess of Liabilities over Financial Assets	3,460	2,794
	Total Excess of Liabilities Over Financial Assets and Similar Items	$ 3,804	$ 3,152

Information concerning the Government's Guaranteed and Indirect Liabilities, Financial Commitments and Contingent Liabilities can be found in the Notes and Schedules To The Financial Statements.

Trust Fund Assets/Liabilities at March 31, 1987 were $1,696 million (1986–$1,587 million). Further details are displayed in Note 4.

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1987
(with comparative figures for the year ended March 31, 1986)

($ millions)

	1987 Budget Estimate	1987 Actual	1986 Actual
REVENUE			
Manitoba Collections			
Retail Sales Tax	$ 465	$ 463	$ 437
Fuel Taxes	176	173	164
Liquor Commission	145	142	139
Levy for Health and Education	123	127	119
Other Taxes	256	258	208
Fees and Other Revenue	172	184	167
Income Taxes			
Corporation Income Tax	146	119	127
Individual Income Tax	720	760	650
Federal Transfers			
Equalization	511	509	470
Health and Higher Education	434	418	410
Shared-Cost and Other	232	234	226
TOTAL REVENUE	$ 3,380	$ 3,387	$ 3,117
EXPENDITURE (SCHEDULE 7)			
Health and Community Services	$ 1,646	$ 1,678	$ 1,555
Education	697	696	663
Economic and Resource Development	544	523	530
Manitoba Tax Credit Plans	204	205	199
Direct Local Government Assistance	115	110	115
Public Debt	323	352	273
Hydro Rates Stabilization	36	70	34
Consumer Services, Public Protection and Other Government Services	305	312	276
TOTAL EXPENDITURE	$ 3,870	$ 3,946	$ 3,645
NET BUDGETARY REQUIREMENT (SCHEDULE 1)	$ 490	$ 559	$ 528
AMOUNTS TAKEN TO EXCESS OF LIABILITIES OVER FINANCIAL ASSETS ACCOUNT:			
NET BUDGETARY REQUIREMENT (AS ABOVE)		$ 559	$ 528
SALE OF LAND AND BUILDINGS		–	(252)
WRITE-DOWN (OFF) OF LOANS, ADVANCES AND LONG-TERM INVESTMENT (NOTE 9)		185	53
PRIOR PERIOD ADJUSTMENTS RELATED TO:			
PUBLIC SCHOOLS SUPPORT (NOTE 10)		50	–
FOREIGN CURRENCY, INVESTMENT AND DEBT TRANSACTIONS		–	189
UNFUNDED LIABILITY FOR MANITOBA DEVELOPMENT CORPORATION LOSSES (NOTE 11)		7	–
INCREASE (DECREASE) IN VALUATION ALLOWANCE (NOTE 12)		(135)	20
TOTAL INCREASE IN EXCESS OF LIABILITIES OVER FINANCIAL ASSETS		$ 666	$ 538

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF CHANGES IN FINANCIAL POSITION – OPERATING FUND

For the Year Ended March 31, 1987
(with comparative figures for the year ended March 31, 1986)

($ millions)

	1987 Budget Estimate	1987 Actual	1986 Actual
Beginning Cash and Equivalents		$ 552	$ 636
Operating Transactions:			
Net Budgetary Requirement	$ (490)	$ (559)	$ (528)
Prior Period adjustment related to:			
Public Schools Support	–	(50)	–
Unfunded Liability for Manitoba Development Corporation Losses	–	(7)	–
Non-Cash Items included in Net Budgetary Requirement and Prior Period Adjustments:			
Decrease (Increase) in Revenue Receivable	–	1	(2)
Increase in Accounts Payable, Accrued Charges and Funds Subject to Call	–	74	54
Provision for Foreign Currency Losses	57	51	16
Amortization of Debt Discount	6	7	5
Cash and Equivalents Required For Operations	$ (427)	$ (483)	$ (455)
Investing Transactions (Note 14):			
Acquired/Made	$ (763)	$ (776)	$ (839)
Redeemed/Realized	199	274	306
Cash and Equivalents Required For Investing	$ (564)	$ (502)	$ (533)
Financing Transactions (Note 14):			
Debt Issued			
Foreign	N.E.	$ 881	$ 759
Domestic	N.E.	499	525
	$ 1,437	$ 1,380	$ 1,284
Debt Redeemed			
Foreign	(71)	(71)	(258)
Domestic	(137)	(168)	(9)
Payment to (from) Provision for Foreign Currency Losses	(12)	18	(62)
Increase in Sinking Funds	(122)	(183)	(212)
	$ 1,095	$ 976	$ 743
Sale of Land and Buildings To Manitoba Properties Inc.	–	–	199
Change in Trust Funds	–	82	(38)
Cash and Equivalents Obtained From Financing	$ 1,095	$ 1,058	$ 904
Change in Cash and Equivalents During Period	$ 104	$ 73	$ (84)
Ending Cash and Equivalents		$ 625	$ 552
Represented by:			
Cash in Bank (Overdraft)		$ (50)	$ (3)
Term Bank Deposits		215	210
Government and Crown Corporation Bills and Notes		719	598
		$ 884	$ 805
Less:			
Uninvested Cash Belonging to Provincial Sinking Fund		259	253
		$ 625	$ 552

N.E. – Not Estimated

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE OF NET OPERATING REQUIREMENT **SCHEDULE 1**

For the Year Ended March 31, 1987

(with comparative figures for the year ended March 31, 1986)

($ millions)

	1987 Budget Estimate	1987 Actual	1986 Actual
NET BUDGETARY REQUIREMENT as reported on the Statement of Revenue and Expenditure	$ 490	$ 559	$ 528
GROSS CAPITAL RELATED EXPENDITURE			
Health and Community Services	$ 34	$ 30	$ 26
Education	26	25	25
Economic and Resource Development	168	160	176
Direct Local Government Assistance	23	20	27
Consumer Services, Public Protection and other Government Services	15	14	23
	$ 266	$ 249	$ 277
NET OPERATING REQUIREMENT	$ 224	$ 310	$ 251

GOVERNMENT OF THE PROVINCE OF MANITOBA

REVENUE RECEIVABLE **SCHEDULE 2**

As at March 31, 1987
(with comparative figures for March 31, 1986)

($ millions)

	1987	1986
Tax Revenue:		
Retail Sales Tax	$ 36	$ 34
Motive Fuel Tax	6	5
Gasoline Tax	9	9
Tobacco Tax	7	6
Revenue Act, 1964	3	3
	$ 61	$ 57
Interest Income:		
Province of Manitoba Sinking Fund	$ 21	$ 16
Other Investments	9	13
	$ 30	$ 29
Government of Canada and Other Governments:		
Shared Cost Programs	$ 45	$ 52
Other Income:		
Manitoba Telephone System	$ 1	$ –
	$ 137	$ 138

GOVERNMENT OF THE PROVINCE OF MANITOBA

LOANS AND ADVANCES **SCHEDULE 3**

As At March 31, 1987

(with comparative figures for March 31, 1986)

($ millions)

	Crown Corporations, Agencies, Boards And Commissions	Other Governments	Others	1987 Total	1986 Total
When Due:					
On Demand	$ 197	$ –	$ 47	$ 244	$ 207
1–5 Years	1,118	4	17	1,139	1,014
6–10 Years	1,205	4	12	1,221	1,094
11–20 Years	222	2	8	232	311
Over 20 Years	375	–	–	375	109
Totals	$ 3,117	$ 10	$ 84	$ 3,211	$ 2,735
Less: Sinking Funds	132	–	–	132	115
	$ 2,985	$ 10	$ 84	$ 3,079	$ 2,620
Valuation Allowance	21	–	34	55	62
	$ 2,964	$ 10	$ 50	$ 3,024	$ 2,558

GOVERNMENT OF THE PROVINCE OF MANITOBA

LONG-TERM INVESTMENTS

SCHEDULE 4

As at March 31, 1987
(with comparative figures for March 31, 1986)

($ millions)

	Crown Corporations	Others	1987 Total	1986 Total
Shares:				
Common	$ 39	$ 6	$ 45	$ 41
Preferred	109	–	109	241
Debentures	4	–	4	4
	$ 152	$ 6	$ 158	$ 286
Valuation Allowance	3	–	3	131
Net	$ 149	$ 6	$ 155	$ 155

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL

SCHEDULE 5

As at March 31, 1987
(with comparative figures for March 31, 1986)

($ millions)

	1987	1986
Accounts Payable	$ 169	$ 156
Accrued Charges		
Interest accrued on Provincial Borrowings and Trust Funds	157	136
Public Schools Support (Note 10)	35	–
Unfunded Liability for Manitoba Development Corporation Losses (Note 11)	7	–
Funds Subject to Call re:		
Shared Cost Programs	–	2
	$ 368	$ 294

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE OF LIABILITIES FOR BORROWINGS

SCHEDULE 6

As At March 31, 1987
(with comparative figures for March 31, 1986)

($ millions)

Fiscal Year of Maturity	Bonds and Debentures Cdn $	Bonds and Debentures US $	Bonds and Debentures Other	Canada Pension Plan Cdn $	Govt of Canada Cdn $	Treas Bills Cdn $	Totals 1987	Totals 1986
1987	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 530
1988	226	16	14	39	4	325	624	299
1989	76	106	141	42	4	–	369	370
1990	1	285	86	45	5	–	422	422
1991	110	298	67	52	5	–	532	532
1992	40	180	151	54	5	–	430	–
1987–1992	$ 453	$ 885	$ 459	$ 232	$ 23	$ 325	$ 2,377	$ 2,153
1993–1997	$ 968	$ 759	$ 1,366	$ 366	$ 26	$ –	$ 3,485	$ 2,661
1998–2007	43	–	224	1,197	71	–	1,535	1,601
2008–2017	–	207	–	–	19	–	226	49
1993–2017	$ 1,011	$ 966	$ 1,590	$ 1,563	$ 116	$ –	$ 5,246	$ 4,311
Total Borrowings	$ 1,464	$ 1,851	$ 2,049	$ 1,795	$ 139	$ 325	$ 7,623	$ 6,464
Reduced By: Unamortized Debt Issue Costs	2	11	26	–	–	–	39	28
	$ 1,462	$ 1,840	$ 2,023	$ 1,795	$ 139	$ 325	$ 7,584	$ 6,436
Sinking Funds Provided	144	195	128	572	16	–	1,055	872
	$ 1,318	$ 1,645	$ 1,895	$ 1,223	$ 123	$ 325	$ 6,529	$ 5,564

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXPENDITURE BY OBJECT **SCHEDULE 7**

For the Year Ended March 31, 1987
(with comparative figures for the year ended March 31, 1986)

	($ millions) 1987	1986
Personnel Services	$ 552	$ 509
Grants/Transfer Payments	2,172	2,043
Transportation	11	11
Communications	18	20
Supplies and Services	235	210
Social Assistance Related	258	236
Other Operating	29	32
Capital	249	277
Public Debt	352	273
Hydro Rates Stabilization	70	34
	$ 3,946	$ 3,645

GOVERNMENT OF THE PROVINCE OF MANITOBA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1987

1. BORROWINGS

All borrowings are expressed in Canadian dollars. In the case of foreign borrowings, the par value is converted at the exchange rate in effect at the date of issue or the actual conversion rate of the proceeds. When foreign debt is revalued using the exchange rates in effect at March 31, 1987, total borrowings is increased to $8,622 million ($7,209 million for 1986) before deduction of Sinking Funds.

The weighted average rate of interest based on actual interest payments made during 1986–87 was 11.13% (11.12% for 1985–86).

2. SECURITIES RECEIVED FROM SALE OF LAND AND BUILDINGS

During 1984–85 and 1985–86 the Province sold land and buildings with an aggregate value of $917 million to Manitoba Properties Inc. (MPI). The sale was arranged through two intermediary Crown Corporations, Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. and resulted in the Province receiving common shares of these two corporations along with promissory notes of MPI and cash as the purchase consideration. The Province has allocated $341 million of the sales proceeds to a special valuation account to reflect the potential diminution of the common shares that could occur as dividends are paid to the preferred shareholders of MPI. The status of the securities and valuation account at March 31st was as follows:

	($ millions) 1987	1986
Shares of Manitoba Properties Leasing Inc.	$ 131	$ 149
Shares of Manitoba Properties Management Inc.	131	149
Promissory Notes of Manitoba Properties Inc.	181	182
	$ 443	$ 480
Less: Special Valuation Account	261	298
	$ 182	$ 182

The value of the common shares and the valuation account have each been reduced by $80 million to March 31, 1987 to reflect the dividends paid by MPI as of its most recent fiscal year–end, January 31, 1987.

If the operations of MPI were consolidated in the financial statements of the Province, these securities would not be reflected as assets because they do not represent claims against other parties. Information regarding the effects of consolidation is provided in the following note.

3. EFFECT OF CONSOLIDATION OF MANITOBA PROPERTIES INC.

The sale and subsequent lease–back of land and buildings to Manitoba Properties Inc. has resulted in ownership by the Province of securities that, if the accounts were consolidated, would no longer appear in the Financial Statements because these are not amounts owing by third parties. Consolidation would have the following effect on the Statement of Financial Position at March 31, 1987 and on the Statement of Revenue and Expenditure for the year ended March 31, 1987:

a) As indicated, Securities Received From Sale of Land and Buildings in the amount of $182 million would be eliminated.

b) Promissory notes of $17 million from Manitoba Properties Inc., shown under Loans and Advances, would be eliminated. These funds were advanced to cover administrative costs of $6 million and capital expenditures of $11 million.

c) Liabilities would be increased by $399 million to reflect the outstanding preferred shares of Manitoba Properties Inc. (with an equivalent decrease in guaranteed and indirect liabilities).

d) The aggregate of these amounts, totalling $598 million, would be an increase to the Excess of Liabilities Over Financial Assets account. This amount exceeds the total of amounts that were originally credited to the excess account at the time of sale by $22 million. This difference results primarily from capital expenditures and share issuance and administrative costs incurred by Manitoba Properties Inc.

e) The net effect on the expenditure accounts of the Government would be an increase in public debt costs of $60 million, an increase in capital expenditure of $11 million and a decrease in expenditure for other government services of $59 million. (The amounts for March 31, 1986 are an increase in public debt costs of $46 million and a decrease in expenditure for other government services of $43 million).

4. TRUST FUND

The Operating Fund financial statements show an amount owing to the Trust Fund which primarily represents surplus cash of Crown Corporations, Agencies, Boards and Commissions on deposit with the Minister of Finance for investment but not specifically invested. The assets and liabilities of the Trust Fund itself as at March 31st are as follows:

	($ millions) 1987	1986
ASSETS		
Amounts due from Operating Fund	$ 570	$ 488
Cash and Investments	586	569
Total Trust Assets	$ 1,156	$ 1,057
LIABILITIES		
Trust Fund Balances	$ 1,156	$ 1,057
Total Trust Liabilities	$ 1,156	$ 1,057

In addition, the Trust Fund includes trust funds where the Government responsibility is custodial in nature. As at March 31, 1987 and March 31, 1986 these funds are reported as $540 million and $530 million, respectively.

5. GUARANTEED AND INDIRECT LIABILITIES

Debt issued by Crown Corporations, Agencies, Boards and Commissions which is guaranteed by the Government as at March 31st are as follows:

	($ millions) 1987	1986
Self-supporting Debt	$ 1,425	$ 1,531
Debt of Crown Corporations Whose Main Source of Income is the Consolidated Fund	399	399
Debt Serviced in Whole or in Part from the Consolidated Fund	13	13
	$ 1,837	$ 1,943
LESS: Applicable Sinking and Other Related Trust Funds	273	262
	$ 1,564	$ 1,681

6. FINANCIAL COMMITMENTS

The Government has entered into long-term financial arrangements wherein indebtedness has been issued that is not guaranteed by the Government but the funds required for the payment of principal and interest will be either fully or partially provided from appropriations of the Consolidated Fund. As well, the Government has made future commitments against appropriations under long-term contracts which cover the acquisition and/or rental of physical assets. These financial commitments as at March 31st are as follows:

	($ millions) 1987	1986
LONG-TERM FINANCIAL ARRANGEMENTS:		
Hospitals & Personal Care Homes	$ 362	$ 298
Public Schools	219	213
Manitoba Housing and Renewal Corporation	231	232
Manitoba Water Services Board	2	2
Brandon University	3	3
	$ 817	$ 748
FUTURE COMMITMENTS:		
Acquisition of Physical Assets	113	102
Rental of Physical Assets	220	96
	$ 1,150	$ 946

In addition to the approved outstanding debt for Hospitals and Personal Care Homes, lines of credit up to $100 million ($126.5 million as at March 31, 1986) have been approved to finance capital projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

7. CONTINGENT LIABILITIES

The Government has provided guarantees for the following and accordingly has a contingent liability in the event of default:

	Maximum Guarantee	Amount Outstanding March 31, 1987	Amount Outstanding March 31, 1986
		($ millions)	
Mortgages	$ 1	$ 1	$ 1
Performance Bonds	53	53	53
Promissory Notes	175	25	126
Bank Loans and Lines of Credit	13	2	18
	$ 242	$ 81	$ 198

This does not include Guarantees that may be provided by Crown Corporations, Agencies, Boards and Commissions under their own separate authority.

8. PENSION LIABILITY

The Province is required by legislation to pay 50% of the pension disbursements made to retired Provincial employees (with the exception of the share payable by Government Agencies for their employees) and to retired teachers. Such payments are charged to departmental appropriations as incurred and no provision is made to fund current or past service obligations of the Province to the Civil Service Superannuation Fund or to the Teachers' Retirement Allowances Fund. The reserves which are presently held in these Funds represent only the employees' obligation towards the total pension liability.

An actuarial valuation and report of the Government's liability to the Civil Service Superannuation Fund was determined as at December 31, 1983. The report also provided a formula to update the liability on an annual basis. In accordance with the formula adopted by the actuary, the Government's actuarial liability to the Civil Service Superannuation Fund has been calculated at approximately $315 million as at December 31, 1986 (approximately $285 million as at December 31, 1985). The liability of the Province to the Teachers' Retirement Allowances Fund has not been established by an actuarial valuation. The reserve which is held in the Teachers' Retirement Allowances Fund, representing the employees' obligation towards the total pension liability, amounted to $474 million as at December 31, 1986 ($413 million as at December 31, 1985). The Province's liability should approximate these amounts.

9. WRITE DOWN (OFF) OF LOANS, ADVANCES AND LONG-TERM INVESTMENTS

Loans, advances and investments in the aggregate of $185 million have been deemed non-recoverable by the Province and have been written-down or written-off pursuant to authority provided under the Financial Administration Act. This adjustment recognizes a reduction in the value of assets as the result of cumulative operating losses and loan forgiveness provisions in certain agreements and is considered a preliminary requirement to the implementation of a new policy for recording losses on loans, advances and investments as described under "Changes In Accounting Policy". A Valuation Allowance was previously provided at March 31, 1986 for many of the amounts now written-down (off). Details of the adjustment and the Valuation Allowance previously provided are as follows:

	($ millions)	
		March 31, 1986
	Amount Adjusted	Valuation Allowance
LOANS AND ADVANCES:		
Manitoba Development Corporation related to:		
Divestiture of Flyer Industries Limited	22	-
Development Agreements (Loan Forgiveness)	8	2
A. E. McKenzie Co. Ltd.	7	7
Manitoba Housing & Renewal Corporation	13	2
Other	2	2
	52	13
INVESTMENTS IN SHARE CAPITAL:		
Manfor Ltd.	128	126
Venture Manitoba Tours Ltd.	2	2
Other	3	2
	133	130
	185	143

Notwithstanding the removal of these amounts from the accounts of the Province, the right to recover these monies has not been extinguished and the Province will enforce collection or reinstatement of the balances should the prospect for recovery change.

10. PUBLIC SCHOOLS SUPPORT

An accounting policy change was made during the fiscal year in order that the Province's share of Public Schools Support costs would be recorded on an accrual basis in future years. The purpose of the change is to reflect these costs in the fiscal year in which the expenditures are being incurred by the School Divisions.

Entries were made to adjust the financial statements in preparation for the adoption of the accrual basis in the 1987-88 fiscal year. An adjustment of $50 million has been recorded at March 31, 1987 to account for the net cumulative effect of the carry forward of the year-end liability in previous fiscal years. Of this amount $15 million was paid to the Public Schools Finance Board during 1986-87 leaving an accrued liability of $35 million which is reported in the Statement of Financial Position at March 31, 1987.

11. UNFUNDED LIABILITY FOR MANITOBA DEVELOPMENT CORPORATION LOSSES

The Manitoba Development Corporation has accrued losses at March 31, 1987, related to the divestiture of Flyer Industries Limited that exceed the funding provided by the Province at that date by $7 million ($7 million as at March 31, 1986). The Province has accrued a liability of this amount to the Corporation in order to recognize the Province's responsibility to fund this amount when it becomes payable.

12. INCREASE (DECREASE) IN VALUATION ALLOWANCE

The Valuation Allowance provided for the estimated reduction in the realizable value of loans, advances and long-term investments decreased by $135 million to $58 million at March 31, 1987. The decrease is largely the result of the write-down (off) of loans, advances and long-term investments described in Note 9. If the adjustment had not occurred, the Valuation Allowance balance at March 31, 1987 would have been $243 million, an increase of $50 million from the $193 million provided at March 31, 1986. This increase is attributed to the following:

	($ millions)
Additional funding provided for the divestiture of Flyer Industries Limited	$ 22.0
Appraisal value adjustment of land held for future development by the Manitoba Housing and Renewal Corporation	11.3
Prospective loan forgiveness in Jobs Fund Development Agreement Loans	6.4
Operating deficit of Manfor Ltd. for the year ended December 31, 1986	2.3
Write-down of the value of the Province's 25% interest in the Tantalum Mining Corporation of Canada Limited	1.0
Increase in allowance for doubtful accounts provided for various Government loan programs	7.0
	$ 50.0

A change in Government accounting policy will result in the provision of an appropriation in future years to record similar non-recoverable amounts in the expenditure of the Government. This change is effective for operating losses and other non-recoverables arising during the 1987-88 fiscal year which will be recorded in the expenditure accounts for 1988-89.

13. LEGISLATIVE AUTHORITY FOR BORROWING AND EXPENDITURE

Limits established by legislation for borrowing funds and for expenditure from appropriations are shown below along with information regarding any non-compliance with these limits that may have occurred during the fiscal year.

1) **BORROWING:**

	($ millions) Appropriation Acts	Loan Acts
Incremental Non-Lapsing Authority Provided in 1986 Acts	$ 700	$ 1,451
Amount Used During the Fiscal Year Ended March 31, 1987	399	94
Available for Future Years	$ 301	$ 1,357
Unused Borrowing Authority From Prior Years	1	1,133
	$ 302	$ 2,490
Less: Encumbered for Specific Purposes	–	75
Unencumbered Borrowing Authority at March 31, 1987	$ 302	$ 2,415

2) **EXPENDITURE:**

A) CHANGES FROM ORIGINAL BUDGET ESTIMATE

The original budget estimate shown on the Statement of Revenue and Expenditure consists of the statutory and voted appropriations that are authorized in the Main and Supplementary Estimates. This amount was increased during the fiscal year as follows:

	($ millions)
ORIGINAL:	
Main and Supplementary Estimates (including general statutory appropriations)	$ 3,870
INCREASED BY:	
Special Warrants	94
Adjustment of estimated amount of statutory appropriations to actual expenditure	74
Total Authorized Expenditure	$ 4,038

B) NON-COMPLIANCE WITH APPROPRIATION LIMITS

One voted appropriation of the Government ended the fiscal year in a net overexpended position because the program involved processed expenditures in excess of the amounts recovered from Departments. This program provides a central service to other Government Departments and, as authorized by the Appropriation Act, incurred expenditures on behalf of Departments in anticipation of recoveries. Because the recoveries did not materialize prior to the close of the fiscal year, the following net overexpenditure was incurred (rounded to the nearest dollar):

Appropriation XIV-3 Communication Services in the Department of Culture, Heritage and Recreation	$ 36,354

In addition to the above, sixteen other appropriations of the Government had late accounts paid in the 1987-88 fiscal year that were in excess of the balance remaining in the appropriation at March 31, 1987. Because these late accounts were liabilities at March 31, 1987, they result in non-compliance with appropriation limits established for the respective programs.

14. **COMPARISON TO BUDGET ESTIMATE**

For purposes of providing a meaningful comparison of changes in the Operating Fund financial position with the budget estimate, in addition to the budget data, other internally developed management information has also been included in the budget estimate information.

15. **SUBSEQUENT EVENTS**

A. ENERGY RATE STABILIZATION ACT AMENDMENT

In the Budget Address of March 16, 1987 the Minister of Finance announced the amendments to the Energy Rate Stabilization Act, effective April 1, 1987 that will result in the following changes:

i) NEW LONG-TERM DEBT

Manitoba Hydro will assume responsibility for the translation gains or losses associated with all foreign borrowings transacted on or after April 1, 1987.

ii) EXISTING LONG-TERM DEBT

a) In foreign currencies other than United States Dollars:
The Province will retain responsibility for the translation of gains or losses associated with existing foreign debt denominated in currencies other than United States Dollars.

b) In United States Dollars:
Effective April 1, 1987, the foreign exchange risks associated with holding United States dollar denominated debt were transferred by the Province of Manitoba to Manitoba Hydro. Consequently the latter will assume responsibility for the translation gains or losses associated with this debt. The Province retains the obligation to pay only the amounts that have been provided in the Province's accounts in respect of this debt to March 31, 1987. This obligation amounts to approximately $159 million and will be disbursed at the maturity dates of the respective debt issues.

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTING POLICIES–STATEMENT AND APPLICATION

STATEMENT OF ACCOUNTING POLICIES

The basic accounting policies followed by the Government of Manitoba, which have been applied in the preparation of these Financial Statements are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba. Further information regarding their application to the financial transactions of the Government is provided in the section entitled "Application of Accounting Policies".

I. THE ACCOUNTING ENTITY

The financial transactions of the Government are recorded in "The Consolidated Fund". The activities of The Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts received as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Financial statements prepared for the "Trust Fund" report the activities in the various categories of trust money administered by the Government.

The financial operations of the provincial Crown Corporations, Agencies, Boards and Commissions are reflected in The Consolidated Fund to the extent that:

1) They receive money from or pay money to the Government.
2) Any deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government.

II. BASIS OF ACCOUNTING FOR REVENUE AND EXPENDITURE

A REVENUE

i) Revenue is ordinarily recorded on a cash basis, with the exception of provincially collected tax revenue, income from investments and advances, shared-cost receipts and Canada-Manitoba Fiscal Arrangements. Accordingly, all money received by Departments on or before March 31 is included in the revenue for the fiscal year, provided that it is deposited with the Minister of Finance prior to the thirtieth day of April, immediately following.

ii) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended.

iii) Income from investments and interest on advances are recorded on an accrual basis. In the case of the provincial sinking funds, any discount or premium arising on purchase is amortized over the period to maturity.

iv) Money received pursuant to shared-cost agreements and arrangements that extend over more than one fiscal year is recorded as revenue in each fiscal year in proportion to the related expenditure made in the respective year.

v) Revenue and expenditure are recorded in gross amounts (referred to as the Gross Accounting Concept) with the exception of the Municipal Share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial-Municipal Tax Sharing Act and is not recorded as revenue by the Government.

vi) Recoveries from Crown Corporations and Government Agencies of the debt servicing costs on self-supporting debt are recorded as a reduction of Public Debt expenditure. The same treatment is also given to income earned on investments and interest on advances.

B EXPENDITURE

Expenditure is recorded on a cash basis, modified to allow an additional forty-five days after the end of the fiscal year for the processing of payments pertaining to that fiscal year. Salaries and wages, however, are charged to the fiscal year in which they are paid.

An accrual is made to March 31st for interest payable on bonds, debentures and other long-term debt and on trust funds invested with the Minister of Finance. An annual provision is made for unrealized losses (gains) on long-term debt that is payable in foreign currencies so that this cost is amortized over the life of the debt issue. Any discount, premium or commission incurred on the issue of the debt is also amortized over the life of the issue.

III. ASSETS AND LIABILITIES

1. The assets and liabilities reported in the financial statements are financial claims consisting of assets which are claims by the Government on other parties and liabilities which are claims by other parties on the Government.
2. Expenditure for the acquisition and/or construction of physical assets together with inventories and other deferred expenditures is not considered to differ from any other service to the public and accordingly is treated as an expenditure of the year in which the expenditure is made. Since such expenditure does not represent financial claims on others, it is not reported as an asset at fiscal year end. This does not negate the fact that the Government has substantial holdings of physical assets such as buildings, highways, education and health facilities, which may tend to appreciate in value over time.
3. Loans, advances and long-term investments held by the Government are subject to annual revaluation. A Valuation Allowance is provided and is adjusted annually to reflect the estimated change in value of these assets.

4. Bonds, debentures and other long-term debt are recorded as liabilities at the par value of such securities. Any discount, premium or commission incurred at the time of issue of the debt is amortized over the life of the debt issue. For foreign issues, the par value is converted to Canadian Funds at the exchange rate in effect at the date of issue, or the actual conversion rate of the proceeds. Sinking funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act.

IV. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government also acts as a guarantor of securities issued by various other entities. The debt guaranteed pertaining to Crown Corporations, Agencies, Boards and Commissions is largely self-supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund. Legislation requires the maintenance of Sinking Funds for the retirement of the debt of most Crown Corporations, Agencies, Boards and Commissions. These Sinking Funds are maintained by the Minister of Finance through annual contributions from the Crown Corporation, Agency, Board or Commission to whom the debt applies and are held in the Trust Fund.

Other Contingent Liabilities that result from other financial activities of the Government are also reported annually in the Public Accounts.

APPLICATION OF ACCOUNTING POLICIES

The following outlines the application of these accounting policies to the financial transactions of the Government:

I. REVENUE

The revenue of the fiscal year is generally the amount received during the fiscal year. Exceptions are made for provincially collected taxes, shared-cost receipts, income from investments, and revenue from the Government of Canada, which are subject to the following additional practices:

a) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended. These amounts are recorded as an account receivable from these Agents as at March 31.

b) A revenue receivable is recorded at March 31st for the interest accrued to that date on the temporary investments of the Operating Fund, on investments owned by the Province of Manitoba Sinking Fund and on advances to Crown Corporations, Agencies, Boards and Commissions. This amount is shown as a revenue receivable even though the income from investments is treated as a reduction in the Public Debt appropriation. The discount (premium) incurred at the time of purchase of the sinking fund investments is also recognized annually in the accounts. The discount (premium) is amortized over the term of the investment with a proportionate increase (decrease) in the book value of the investment.

c) Where, pursuant to an agreement or arrangement, money is received in advance relating to projects for which expenditure is to be made in more than one fiscal year, the money is deemed to have been received in each fiscal year in proportion to the related expenditure made in the respective fiscal year.

d) It is the practice to show the uncollected balance of claims related to shared-cost agreements with the Government of Canada as an account receivable at March 31. This accrual is made in order that the revenue from this source is recorded in proportion to the related expenditure incurred in the fiscal year.

e) The accounts are kept open until June 30 to reflect any adjustments regarding revenue from the Government of Canada under the Canada-Manitoba Fiscal Arrangements that the Government of Manitoba may become aware of before that date. Since this is a major source of Government revenue, this practice is considered necessary to show the financial condition of the Government in the most accurate manner possible.

II. EXPENDITURE

Expenditure of the fiscal year is essentially payments made from appropriations during the fiscal year and for a subsequent forty-five day period after March 31. The accounts remain open during this period to allow processing time for expenditure pertaining to the fiscal year just ended.

The following additional practices are applicable when recording the public debt costs of the Province:

1. An accrual is made to March 31st for the interest payable on bonds, debentures and other long-term debt and on trust funds invested with the Minister of Finance. In the case of foreign issues, the accrual is based on the exchange rate that was recorded at the time of debt issue. There is no provision made for the fluctuation of foreign currencies between the debt issue dates and the interest payment dates.
2. An annual provision is made for the unrealized losses (gains) that will occur at maturity on long-term debt that is payable in foreign currencies because of fluctuations in currency values over the life of the issue.
3. Any discount, premium or commission incurred on the issue of long term debt is amortized over the life of the respective debt issue.

The Valuation Allowance is not charged to an appropriation. This amount, which represents an estimate of the change in recoverable value of loans and advances and long-term investments during the fiscal year is reported as a separate item on the Statement of Revenue and Expenditure but is not included in the "Net Budgetary Requirement". When a legal realization of the loss occurs, the final write off of the loan, advance or investment will also be disclosed after the operating results on the Statement of Revenue and Expenditure. This Policy is undergoing revision as explained in paragraph a) under "Changes in Accounting Policies".

Payments made by the Government for capital purposes are classified in a separate category of expenditure called "Expenditures Related to Capital" and are defined as follows:

a) Expenditures for property of all kinds, both real property and chattels, purchased or self-constructed for use by Government that are deemed to have an economic life in excess of one year.

b) Expenditures for projects or activities which entail major renewals, modification or modernization by own labour forces on behalf of the Government. The expenditures should significantly prolong the expected economic life of the asset.

c) The principal portion of a debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost of the physical asset was not previously reflected in the Consolidated Fund as an expenditure.

d) Grants or assistance payments to municipalities, school divisions, external agencies, commercial organizations and private individuals which are known to be for the purchase, construction or improvement of physical assets.

III. ASSETS AND LIABILITIES

The Statement of Financial Position — Operating Fund is prepared in accordance with the following practices:

1. CASH AND EQUIVALENTS

This classification is comprised of the temporary investments of the Province which are reduced by the net overdraft in the Province's bank accounts. It is further reduced by the amount of uninvested cash belonging to the Provincial Sinking Fund. This cash is designated as part of the Provincial Sinking Fund and will be made available for long-term investment when required. Temporary investments are securities held as a result of the investment of the Government's cash flow and are generally comprised of money market instruments such as term deposits and negotiable securities which are intended to be held for a short term. All investments are shown at cost. The net bank overdraft has been adjusted for cheques issued prior to and not presented for payment at March 31st and for cash in transit.

2. REVENUE RECEIVABLE

Amounts accrued at March 31st for provincially collected tax revenues, interest on investments and advances and the uncollected balance of claims related to shared-cost agreements with the Government of Canada are shown here.

3. LOANS AND ADVANCES

Advances to Crown Corporations, Agencies, Boards and Commissions, which are generally interest bearing, are shown under this heading.

The Sinking Funds provided by Crown Corporations, Agencies, Boards and Commissions for repayment of the debt issued to fund advances to these entities are deducted from the advances.

Certain of the Crown Corporations are charged with a responsibility for administering Government programs for which they receive funds from Government appropriations. These funds are applied by the Corporation towards the program administration cost, including, in some cases, a portion of the interest they are charged on these advances. The principal repayment and/or interest charges for certain of the advances are dependent on total or partial funding from future appropriations of the Operating Fund.

Loans and advances to Municipal Corporations or others under various Government programs are included here. Certain of these amounts may be interest bearing depending on the nature of the program.

All loans and advances are recorded at cost and are subject to annual valuation to reflect reductions from their recorded value to their estimated realizable value.

4. LONG-TERM INVESTMENTS

The majority of the Province's long-term investments consist of shares and debentures of Crown Corporations. These investments are carried at cost which does not reflect the realizable value of the investments. Any decrease in the estimated realizable value is provided for in the valuation allowance, which is described in the next paragraph.

5. VALUATION ALLOWANCE

An allowance is provided for decreases in the value of loans, advances and long-term investments and is adjusted annually for changes that may occur in the estimated realizable value of these assets. The allowance is determined as follows:

a) ACCUMULATED DEFICITS OF CROWN CORPORATIONS, AGENCIES, BOARDS AND COMMISSIONS

The allowance is used to provide for the accumulated deficits of the Crown Corporations, Agencies, Boards and Commissions in which the Government has invested money by way of loans, advances or purchase of shares. The valuation is based on the audited financial statements applicable to the fiscal year that is closest to March 31st. If the Government has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the accumulated deficit is assigned against the investments in order of priority on liquidation.

Losses covered by the allowance are reviewed to ascertain the prospect for recovery of the loss from the future operations of the entity involved. Losses incurred in a fiscal year that are considered non-recoverable are incorporated in the Government's Estimate of Expenditure in the immediate following fiscal year.

The loan, advance or investment is written-down (off) in the accounts of the Government, pursuant to authority provided under the

Financial Administration Act, and the amount written-down (off) is recorded in an appropriation provided for that purpose. Notwithstanding the foregoing procedure, the Province does not extinguish its right to enforce collection or reinstatement of the amounts written-down (off) should the prospect for recovery improve and will report these amounts as a "contingent recoverable".

b) ALLOWANCE FOR DOUBTFUL ACCOUNTS
The allowance is used to provide for the estimated amount not recoverable under a Government loan or support program. The allowance for doubtful accounts that has been established for that program is recorded by means of a valuation allowance placed against the loan or advance used to fund the program. The increase in the allowance recorded at the end of the fiscal year is incorporated in the Government's Estimate of Expenditure in the immediate following fiscal year. Increases are recorded in the appropriation(s) provided regardless of the timing of the write-off of the uncollectible accounts. Write-offs are made directly against the valuation allowance.

6. **AMOUNT OWING TO THE TRUST FUND**
A large portion of this money has been deposited with the Minister of Finance in accordance with the terms of the legislation regulating the management of sinking funds and surplus cash of Crown Corporations, Agencies, Boards and Commissions, but is not specifically invested. Such deposits are accorded a market rate of interest.

7. **ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL**
Cheques issued during the forty-five day period after March 31, in payment for goods and services pertaining to the fiscal year just ended are shown as accounts payable rather than as outstanding cheques.

Accrued charges represent the accrual of interest on provincial securities and on Trust Funds, an accrual of the Province's share of Public Schools Support costs unpaid at March 31st and the recording of a liability to the Manitoba Development Corporation for losses accrued by the Corporation related to the divestiture of Flyer Industries Limited.

Funds subject to call consist of money received from the Government of Canada under shared-cost programs that will not be taken into revenue until earned.

8. **BORROWINGS**
This category includes bonds, debentures, secured loans from the Government of Canada, treasury bills and notes. Securities issued in Canadian funds are recorded at par value. Securities issued in foreign funds are recorded at the Canadian Dollar equivalent of the par value based on the actual conversion of the proceeds or at the exchange rate in effect at the date of issue if conversion does not take place at issue date. Securities payable in foreign funds issued for the purpose of refunding other issues payable in the same currency are recorded at the Canadian Dollar equivalent of the par value at the date of issue.

The Government is required, by legislation, to determine the Canadian Dollar equivalent of provincial securities issued in foreign currencies or units of monetary value at March 31st of each year. The amount determined must be published in the Public Accounts as information regarding the current valuation of this foreign debt. An annual provision is made for these unrealized losses (gains) as described in paragraph 9 below.

Borrowings are reduced by the unamortized balance of the discount, premium or commission incurred on the issue of long-term debt which will be amortized over the remaining term of the debt issues for which these costs were incurred.

Borrowings are also reduced by Sinking Funds which are maintained in accordance with the legal requirements of the debt instruments and the Financial Adminstration Act. Money is allocated annually to these Sinking Funds on the following basis:

a) A sum equal to 3% of the aggregate amount of general purpose debt, in Canadian Dollars, outstanding at the end of the preceding fiscal year; and

b) All earnings derived from investing the sinking fund.

In addition principal repayments of advances which are funded by the issue of provincial securities are deposited to the Sinking Fund provided that the principal repayments are made prior to the maturity date of such securities.

The total shown for sinking funds also includes sinking fund money provided by Crown Corporations, Agencies, Boards and Commissions in respect to debt incurred on their behalf by the Government.

9. **PROVISION FOR UNREALIZED FOREIGN CURRENCY LOSSES**
An annual provision is made for the estimated losses (gains) that could occur at maturity on long-term debt that is payable in foreign currencies because of fluctuations in currency values between the debt issue dates and maturity dates. Each fiscal year-end the foreign debt is revalued using the average of the exchange rates that were in effect during the fiscal year just ended and during the preceding two years. The provision is calculated by amortizing the currency fluctuation over the remaining term of the debt. Where an issue of debt is called prior to maturity and replaced with an issue payable in the same currency of the same maturity and par value, for the purposes of this amortization policy, the new issue is deemed to be the same as the original issue.

When the debt matures, the actual loss (gain) is adjusted against the cumulative provision for that specific debt issue. Any difference between the actual amount and the amount provided is charged (credited) to the Public Debt appropriation.

10. **EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE:**

a) SERIAL DEBENTURES OF SCHOOL DIVISIONS AND DISTRICTS, TRANSFERRED FROM THE MANITOBA SCHOOL CAPITAL FINANCING AUTHORITY

The School Capital Financing Authority Act was repealed April 1, 1983 at which date all investments and money held by the Authority, as well as debt payable by the Authority, was assumed by the Government. The investments transferred to the Government consist of serial debentures issued by school divisions and districts for which the Government is primarily responsible for repayment. These securities are therefore included in this category because they do not represent a claim on other parties.

The budget estimate of expenditure provides an annual appropriation in the Consolidated Fund to cover the principal and interest costs of these debentures. The cash drawn from this appropriation for the required annual principal repayments is transferred to the Province's sinking fund where it will be used for repayment at maturity of the debt assumed from the Authority. A similar treatment would be accorded any proceeds from the sale of the school debentures.

b) SECURITIES RECEIVED FROM THE SALE OF LAND AND BUILDINGS TO MANITOBA PROPERTIES INC.

Land and buildings, having an aggregate value of $917 million, were sold to Manitoba Properties Inc. under various sales agreements during 1984–85 and 1985–86. In addition to cash, the purchase consideration received from the sale consisted of common shares of Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. and promissory notes from Manitoba Properties Inc.

The recorded value of the common shares has been reduced by a special valuation account which was established from a portion of the sale proceeds and is used to reflect the potential diminution in value of these shares as the result of dividends paid to preferred shareholders of Manitoba Properties Inc. on an annual basis. Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. jointly own all the common shares of Manitoba Properties Inc. and the value of their equity in these shares could decrease annually with the payment of dividends by the latter to preferred shareholders.

Interest payable to the Province on the promissory notes is funded from annual rental payments made by the Province to Manitoba Properties Inc. and is therefore dependent on future appropriations of the Consolidated Fund. These securities are therefore included under this category because they do not represent a claim on other parties.

c) EXCESS OF LIABILITIES OVER FINANCIAL ASSETS

This account and the two accounts previously described represent the difference between liabilities, which are financial claims owing by the Government, and financial assets, which are financial claims receivable by the Government. Since the physical assets and materials inventories of the Government do not constitute a financial claim receivable by the Government, they are not considered in the determination of this balance.

IV. CHANGES IN ACCOUNTING POLICY

Section 10 of the Financial Administration Act requires a statement of any change in the accounting policies of the Government from those followed in the preceding fiscal year. The changes for the fiscal year ended March 31, 1987 were as follows:

a) A change in the Government's policy related to the Valuation Allowance was initiated in 1986–87 and will require changes until 1988–89 before the conversion to the new policy is completed. While the Valuation Allowance will be determined in the same manner as it has in the past, those losses covered by the allowance which are considered to be non-recoverable will be incorporated into the Government's Estimate of Expenditure in the immediate following fiscal year. This change will commence with losses incurred in the 1987–88 fiscal year which will be covered by an appropriation provided in the 1988–89 fiscal year.

In order to initiate this policy, a transitional adjustment of $185 million was made through the Excess of Liabilities over Financial Assets account at March 31, 1987. The purpose of the adjustment is to write-down (off) the value of loans, advances and share equity investments provided to March 31, 1987 in recognition of losses accumulated to that date. A related accrual of $7 million to the Manitoba Development Corporation was also made to record a liability to that Corporation for losses that had not been funded by the Province at March 31, 1987.

b) Funding for Public Schools Support is in the process of being changed from the cash to the full accrual basis, commencing with the 1987–88 fiscal year. In order to accommodate the transition from the cash basis, an adjustment of $50 million was made through the Excess of Liabilities Over Financial Assets Account and an accrued liability to school divisions of $35 million was recorded at March 31, 1987. Authority to pay the accrued liability will be provided in the 1987–88 fiscal year.

V. ENTRIES MADE SUBSEQUENT TO JUNE 30, 1987

Section 8.1(2) of the Financial Administration Act requires disclosure of entries made after June 30th respecting transactions of the preceding fiscal year. Accordingly, the following are reported:

a) WRITE-OFF OF LOANS, ADVANCES AND LONG-TERM INVESTMENTS

Authorization for the write-down (off) of $185 million of loans, advances and long-term investments was provided by order-in-council 1363/87, approved on December 2, 1987, with retroactive effect to March 31, 1987. The entries giving effect to this order-in-council, as well as a related entry recording the unfunded liability to the Manitoba Development Corporation, were made at the approximate date of the order. Because of the timing of these adjustments, disclosure of these changes has not been made in the applicable financial statements of the Crown Corporations, Agencies, Boards and Commissions affected by the adjustment.

b) PUBLIC SCHOOLS SUPPORT

Entries affecting 1986-87, to allow for the transition from the cash to the accrual basis of accounting in 1987-88, were made in November, 1987.

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ASSETS AND LIABILITIES

As at March 31, 1987
(with Comparative Figures for March 31, 1986)

ASSETS	March 31, 1987	March 31, 1986
Amount Due from Operating Fund	$ 569,504,889	$ 487,889,264
Cash and Investments	586,337,571	569,530,791
Total Trust Assets	$ 1,155,842,460	$ 1,057,420,055
LIABILITIES		
Trust Fund Balances	$ 1,155,842,460	$ 1,057,420,055
Total Trust Liabilities	$ 1,155,842,460	$ 1,057,420,055
CUSTODIAL TRUST FUNDS		
Cash, Bonds and Other Securities held by the Department of Finance and Other Government Departments – as listed on page 5 — 24	$ 539,809,928	$ 529,711,242

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ACCOUNTING POLICIES

The Trust Fund is divided into two primary divisions, Administered Trust and Custodial Trusts. Those trusts where the Government has the responsibility for the administration and for investment of the trust are considered Administered Trusts. Those trusts where the Government responsibility is custodial in nature and there is little or no administration responsibility are considered Custodial Trusts. Generally, the responsiblity for investment of Custodial Trust is that of the depositor. A statement of Assets and Liabilities for the Trust Fund is included in the Public Accounts showing the assets and liabilities for Administered Trusts. Details of Custodial accounts are set out in a note to the statement of Assets and Liabilities.

Administered Trusts are divided into five categories:

1. Sinking Funds – This category includes sinking fund contributions deposited with the Minister of Finance by Crown Corporations, Agencies, Boards and Commissions in respect of their direct debt.

2. Funds on Deposit For Investment – Funds surplus to the immediate cash requirement of Crown Corporations, Agencies, Boards and Commissions are deposited for investment with the Minister of Finance. Although certain of these deposits are covered by specific investments in the Trust Fund, the majority of these funds are invested with the Minister of Finance and interest is paid at market rate in accordance with the term of the investment.

3. Banking Facility Accounts — These accounts are operated for those Crown Corporations, Agencies, Boards and Commissions who bank with the Minister of Finance.

4. Operating Trusts — Certain trusts are established where legislation or agreements require receipts and related expenditure to be kept separate from Government revenue and expenditure. These "designated trusts" may, in some cases, be used for programs similar to those operated from appropriated funds but are kept separate because a trust requirement has been established. A separate Statement of Receipts, Payments and Transfers is prepared for each of these operating trusts and is published in the Trust Fund section of the Public Accounts.

5. Miscellaneous Trusts — This category contains trust accounts resulting from the sundry deposit of cash and/or securities with the Government.